

ANNUAL
REPORT

2018



Borregaard



Borregaard

The background of the page is a close-up photograph of a tree trunk's cross-section, showing the concentric growth rings and a prominent vertical crack. The wood has a rich, dark brown color with some lighter, weathered areas.

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THE BORREGAARD GROUP

Borregaard operates one of the world's most advanced biorefineries. By using natural, sustainable raw materials, the Group produces advanced and environmentally friendly biochemicals that can replace oil-based products.

BORREGAARD IN A NUTSHELL

- A biorefinery with high value-added
- Specialisation in global niches
- Strong innovation ability and continuous improvement
- Competence as the main competitive advantage

A BIOREFINERY WITH HIGH VALUE-ADDED

The Group's business model is closely linked to the integrated nature of its biorefinery in Norway, which utilises the three key components of wood – cellulose fibres, lignin and sugars – to produce a diversified portfolio of products. The biorefinery utilises more than 85 percent

of the feedstock to make biochemicals, while most of the remaining biomass is used to produce energy for its production processes.

In addition to its biorefinery in Sarpsborg, Borregaard has seven production sites outside Norway dedicated to producing lignin-based products. The company also has sales offices in 16 countries in Europe, Asia, Africa and the Americas serving its global customer base. At the end of 2018, the Group had 1,097¹ full-time equivalent (FTE) employees.



Performance Chemicals

Global market leader in lignin-based products with unique technology and in-depth application competence.

Speciality Cellulose

Leading global speciality cellulose supplier. Large producer of second generation bioethanol.

Other Businesses

Only producer of wood-based vanillin. Largest producer of intermediates for non-ionic contrast agents. Pioneer in cellulose fibrils.

¹ See Note 6 to the Consolidated Financial Statements regarding treatment of the joint venture in South Africa.

SPECIALISATION IN GLOBAL NICHES

Borregaard is a supplier of specialised biochemicals to a global customer base. The Group's main products are lignin-based products and speciality cellulose, but the product portfolio also includes vanillin, second generation bioethanol, fine chemicals and cellulose fibrils.

Borregaard's niche products serve applications in a wide range of end-markets including construction, agriculture, food and beverages, transportation and pharmaceuticals. The Group's strong market positions have been developed through in-depth understanding of its markets, production of advanced and specialised products and local presence in the form of a global sales and marketing organisation.

COMPETENCE AS THE MAIN COMPETITIVE ADVANTAGE

Borregaard is a competence-driven company with production, research and development (R&D) and sales and marketing as its core competencies. To maintain its leading position, Borregaard has a strong focus on training programmes and cooperation between the various disciplines.

Borregaard has a leading research centre combining wood chemistry and fine chemistry, focusing on the development of new or improved products, applications and production technologies. The Group had 97 employees in R&D as of 31 December 2018.

BORREGAARD'S THREE BUSINESS SEGMENTS

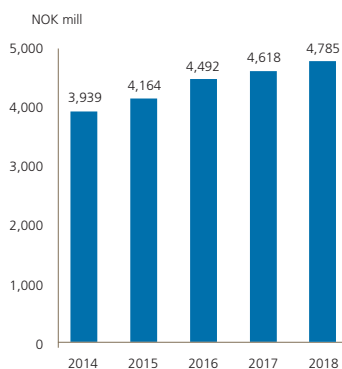
Performance Chemicals develops, produces and sells lignin-based products used as binding and dispersing agents in a wide range of end-market applications, such as construction, industrial binders, agrochemicals and batteries. In addition, Performance Chemicals has trading activities in chemicals which are either linked to lignin-based products or have previously been produced by Borregaard.

Speciality Cellulose develops, produces and sells speciality cellulose mainly for use as a raw material in the production of cellulose ethers, cellulose acetate and other speciality products. The second generation bioethanol business is also part of the Speciality Cellulose segment.

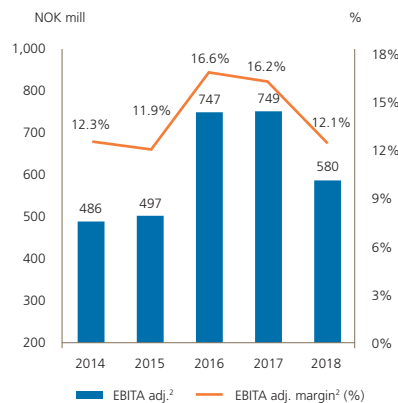
Other Businesses consists of Ingredients, Fine Chemicals and Cellulose Fibrils. Borregaard supplies vanillin products to flavour and fragrance companies, as well as to the food and beverage industry. The Group is the only producer of wood-based vanillin in the world. Borregaard supplies fine chemicals to the pharmaceutical industry and is the world's largest supplier of intermediates for non-ionic contrast agents. Cellulose Fibrils consists of two product ranges. Exilva microfibrillar cellulose for industrial applications is in the market introduction phase, whereas SenseFi advanced texture systems for the food and beverage industry is in the demonstration phase. Other Businesses also includes sales of basic chemicals from the chlor-alkali production in Sarpsborg and unallocated corporate costs.

KEY FIGURES

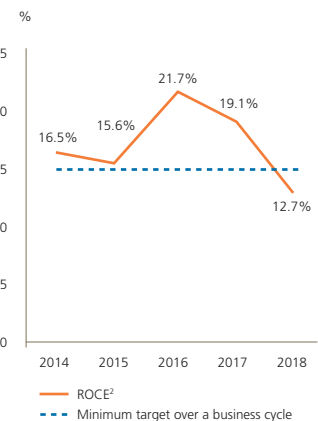
OPERATING REVENUES



EBITA adj.²



ROCE²



² Alternative Performance Measures, see page 121 for definition.

MESSAGE FROM THE CEO

Borregaard's specialisation strategy is aimed at strengthening the company's position as the world's most advanced biorefinery. We shall be the leading player in our chosen global niche markets and possess the best competence in our priority fields. Innovation is an important driver behind further specialisation of our operations.

INNOVATION AND MARKET DEVELOPMENT

Our innovation activities will drive volume growth for our highly specialised products and reduce market risk through diversification of our product portfolio. At the same time, we want to develop new business opportunities that will increase the overall specialisation of Borregaard's business portfolio.

It is important that we develop new markets in parallel with our innovation work. Borregaard's product portfolio includes radical innovations that will require time and resources to be spent on market development. Exilva is one such product, and a good example of new business opportunities contributing to increased specialisation.

Innovation and market development often lead to new investments in technology and equipment. Our new product range within speciality cellulose, Ice Bear, and the upgrades to the lignin and bioethanol plants in Sarpsborg, are good examples of this. These investments contribute to further specialisation of our product portfolio.

Market diversification and flexible production units are important risk reducing factors. As an example, Performance Chemicals has targeted that 70% of the sales volume shall consist of applications within the Industrial and Specialities segments by the end of 2021.



A SUSTAINABLE BUSINESS MODEL

Sustainability is a key component of our business model and one of Borregaard's core values. The company offers green products with good climate and environmental properties that replace oil-based products. Environment, health and safety is a top priority throughout the Group, and significant investments have been made in this area. Profitability is a prerequisite for sustainability. Both the way the Group is run and the products we produce are sustainable and meet global needs.

Since sustainability is becoming increasingly important, the climate footprint of Borregaard's products is also becoming more important for our customers in their choice of suppliers. Sustainability is thus becoming an integral part of our market communication. When our customers choose between different suppliers, our ambition is that Borregaard's bio-based products shall be the preferred alternative - not only because they provide the best cost/performance ratio, but also from a sustainability perspective.

Borregaard has prioritised six of the seventeen Sustainable Development Goals set out in the UN's 2030 Agenda for Sustainable Development. Priorities are chosen based on the global challenges the world faces, as well as the solutions and products we provide. The six prioritised sustainability goals are: zero hunger, economic growth, innovation, responsible production, climate action and life on land.

STRATEGIC PRIORITIES

In the five-year period from 2015 to 2019, Borregaard will invest close to NOK 2 billion in various strategic expansion projects aimed at ensuring our competitiveness in the years to come. These investments will lay the foundation for top-line growth and increased specialisation in the future. The most prominent projects are the new lignin plant in Florida, upgrading and further specialisation of production plants for lignin in Sarpsborg, the Exilva plant, the Ice Bear technology, as well as the upgrade of the bioethanol plant.

Going forward, the focus will be on execution and market development. We will also step up our activities to increase market awareness of Borregaard's bio-based and sustainable products.

In addition, we also have potential expansion projects that require relatively small investments, such as further expansion of the lignin capacity in Florida and increasing production capacity for Exilva. In parallel, we will explore other opportunities for specialisation and capacity expansion, particularly in relation to the biorefinery in Sarpsborg.

Kind regards,



Per A. Sørli,
President and CEO



THE BOARD OF DIRECTORS



JAN ANDERS OKSUM

Chair

Member of the Board from October 2012 and member of the Board of Borregaard Industries Limited 2007-2012.

Jan Oksum is an independent consultant within organisational development and strategy. He has worked in various positions at Norske Skogindustrier ASA including the position as CEO. Mr Oksum has served as chair and director of various national and international companies, such as Norconsult AS, Elopak AS and Södra Cell AB. He holds a degree in pulp and paper chemistry from the Norwegian University of Science and Technology in Trondheim. Mr Oksum has attended 8 out of 8 board meetings in 2018. Mr Oksum holds 11,500 shares in Borregaard ASA.



TERJE ANDERSEN

Member

Member of the Board from October 2012 and member of the Board of Borregaard Industries Limited 2005-2012.

Terje Andersen is CEO of Orkla Investments. He has held various positions within the Orkla group including CFO of Orkla ASA. Mr Andersen holds a number of positions in various boards, such as Saudafaldene AS (chair) and Jotun AS. He holds a degree in Business Administration (siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen. Mr Andersen has attended 8 out of 8 board meetings in 2018. Mr Andersen holds 4,371 shares in Borregaard ASA.



TOVE ANDERSEN

Member

Member of the Board since April 2018. Tove Andersen is EVP Production at Yara International ASA and a member of the group

management team. Ms Andersen has held a number of different positions at Norsk Hydro/Yara, including EVP Supply Chain, VP Marketing and New Business, Country Manager UK/Ireland, Director Specialities and Retail Marketing and Director Business Development and Alliances. She has also held the position as a researcher at Norwegian Computing Center. Ms Andersen is board member of Cambi ASA and Posten Norge AS. She holds a degree in Applied Physics and Mathematics from the Norwegian University of Science and Technology, Norway and an MBA from BI-Norwegian Business School. Ms Andersen has attended 5 out of 6 board meetings since elected in April 2018. Ms Andersen holds 4,000 shares in Borregaard ASA.



MARGRETHE HAUGE

Member

Member of the Board since April 2018. Margrethe Hauge is a Partner at Falcon Industrial Partners AS, a company engaged in strategic business development and restructuring management in international companies. Until 2017, Ms Hauge was Regional Managing Director - Nordic & Germany at MRC Global Inc. Prior to this, she was Managing Director of MRC Solberg & Andersen AS and EVP Services at TTS Group ASA. She has also held several positions at Kverneland Group. Ms Hauge has also been a trainee at Norsk Hydro ASA. She is a board member of Salmar ASA and GIEK. She holds a Master's degree in Economics & Business Administration, University of Mannheim, Germany. Ms Hauge has attended 5 out of 6 board meetings since elected in April 2018. Ms Hauge holds 4,077 shares in Borregaard ASA.



HELGE AASEN

Member

Member of the Board since April 2018. Helge Aasen is CEO of Elkem ASA, a post held since 2009. He has held a number of positions in the Elkem Group since 1990, and has experience from various divisions in the Group as well as sales, marketing and commercial positions. Mr Aasen has previously held engineering positions at Norsk Ferro AS, a part of Norsk Jern Holding. He is a board member of China National Bluestar Company. Mr Aasen is also chair of the board of the Federation of Norwegian Industries. He holds a degree in Metallurgy from the Norwegian University of Science and Technology and has participated in a leadership programme at IMD, Switzerland. Mr Aasen has attended 3 out of 6 board meetings since elected in April 2018. Mr Aasen holds 1,300 shares in Borregaard ASA.



ÅSMUND DYBEDAHL

Employee representative

Member of the Board since April 2013. Åsmund Dybedahl is Leader of The Norwegian United Federation of Trade Unions at Borregaard Sarpsborg (Fellesforbundet Borregaard Fagforening), as well as chair of the board of the Norwegian Confederation of Trade Unions (LO) at Borregaard Sarpsborg. Mr Dybedahl has attended 8 out of 8 board meetings in 2018. Mr Dybedahl and close relatives hold 12,913 shares in Borregaard ASA.



RAGNHILD ANKER EIDE

Employee representative

Member of the Board since October 2012. Ragnhild Anker Eide works as Logistics Manager at Borregaard Sarpsborg. She is chair of The Norwegian Society of Graduate Technical and Scientific Professionals (Tekna) at Borregaard and chair of the board of the Joint Union for Officials and Engineers at Borregaard. Ms Eide has attended 7 out of 8 board meetings in 2018. Ms Eide holds 3,025 shares in Borregaard ASA.



BENTE SELJEBAKKEN KLAUSEN

Observer

Observer of the Board since October 2012. Bente Seljebakken Klausen works as a Laboratory Technician at Borregaard R&D, Sarpsborg. She is chair of the Norwegian Engineers and Managers Association (FLT) at Borregaard, treasurer of the Norwegian Engineers and Managers Association (FLT) at the Sarpsborg branch and secretary of the board of the Norwegian Confederation of Trade Unions (LO) at Borregaard Sarpsborg. Ms Seljebakken Klausen has attended 8 out of 8 board meetings in 2018. Ms Klausen and close relatives hold 1,966 shares in Borregaard ASA.



ROY KÅRE APPELGREN

Observer

Observer of the Board from October 2012 and observer of the Board of Borregaard Industries Limited 2010-2012. Roy Kåre Appelgren works as a Senior Engineer in Mechanical Maintenance at Borregaard Sarpsborg. He is chair of The Norwegian Society of Engineers and Technologists (NITO) at Borregaard and a member of the Joint Union for Officials and Engineers at Borregaard. Mr Appelgren has attended 8 out of 8 board meetings in 2018. Mr Appelgren holds 1,449 shares in Borregaard ASA.



REPORT OF THE BOARD OF DIRECTORS

2018 was an eventful year for Borregaard with large expansion investments, start-up of new production facilities and increased attention for our sustainable solutions based on renewable raw materials.

OVERVIEW

Borregaard is a leading global player with strong positions in selected niches of bio-based speciality chemicals, ingredients and fine chemicals. The Group operates one of the world's most advanced biorefineries with high value creation through high utilisation of the wood raw material base. Borregaard's strong innovation competence contributes to continuous specialisation of existing operations as well as the development of new products and applications.

The head office and main production facilities are located in Sarpsborg, Norway, where industrial activity based on sulphite pulping started in 1889. The Group has manufacturing operations or sales offices in 16 countries. See Note 7 to the Financial Statements of Borregaard ASA.

HIGHLIGHTS 2018

In 2018, Borregaard completed several large expansion projects and started up new production facilities.

The new lignin plant in Florida commenced production, the new dehydration plant for bioethanol at the Sarpsborg site was completed and increased capacity for Ice Bear products in Speciality Cellulose was installed. The NOK 500 million investment programme to upgrade and specialise the production facilities for lignin products at the Sarpsborg site

is ongoing and will be completed in the 3rd quarter of 2019. Borregaard and Borg Havn (The Port of Borg) have agreed that the Port will build and own a 19,000 square metres warehouse which Borregaard will lease for lignin products from the Sarpsborg site. The construction of the warehouse will be completed mid-2019. Going forward, the focus will turn from execution of strategic investments to market introduction and sales, as well as increasing customer awareness of Borregaard's bio-based and sustainable products.

Innovation efforts are expected to further improve the Group's innovation rate (13% in 2018, see page 28) and market position. In 2018, Borregaard's gross expenditure on research and innovation efforts was NOK 190 million, 4.0% of the Group's operating revenues. In 2018, Borregaard recognised NOK 90 million in the form of public funding for ongoing research projects, both from the Norwegian Government and the European Union.

Environment, health and safety (EHS) are integral parts of Borregaard's business model. In 2018, the total recordable injuries per million worked hours (TRI) was 8.6 (8.0)¹. Sick leave decreased to 3.5% (3.8%) from an already low level in 2017. Total energy consumption in Borregaard was reduced in 2018, due to the effect of the energy efficiency programmes

¹ Figures in parentheses are for the corresponding period in the previous year

at the production site in Sarpsborg. The Group's emissions of organic compounds (COD) and sulphur dioxide decreased in 2018, while nitrogen oxides emissions increased partly due to start-up of the lignin plant in Florida. Greenhouse gas emissions (scope 1 and scope 2) increased by 9%, mainly as a result of more use of liquefied natural gas for peak-load energy at the plant in Sarpsborg. See the Sustainability and Corporate Responsibility Report from page 17.

MARKET TRENDS

Borregaard's diversified product portfolio and global market exposure provide flexibility and a natural hedge against the impact of market fluctuations.

For Performance Chemicals, sales of lignin products to concrete admixture continued to be affected by strong competition and price pressure in 2018. Efforts to further diversify and specialise the product portfolio, together with increased sales volume, compensated for the impact from the challenging concrete admixture market. Inventories of finished goods were relatively stable throughout 2018.

In Speciality Cellulose, the cellulose ether market continued to develop positively. The market balance for acetate cellulose was negatively affected by continued shrinking demand and excess capacity. The textile cellulose market was relatively stable in 2018, but prices were lower than in the first half of 2017. Overall, Borregaard's cellulose sales prices were in line with 2017, but the product mix was weaker due to lower sales of acetate cellulose. Borregaard's bioethanol business had increased sales prices and improved product mix in 2018. The demand for bioethanol in automotive fuel is increasing. After completing the investment in a dehydration plant in the 1st quarter of 2018, Borregaard has sufficient capacity to deliver its entire production as water-free bioethanol for fuel.

Within Other Businesses, a positive market trend and higher prices for bio-based vanillin had a significant impact for Ingredients. The end-markets for Fine Chemicals' intermediates for non-ionic contrast agents continued to grow. Cellulose Fibrils saw increased interest from the market in 2018, but continued to experience long lead-times for conversion of sales prospects to regular customers.

FINANCIAL PERFORMANCE IN 2018

In 2018, Borregaard's operating revenues increased to NOK 4,785 million (NOK 4,618 million). EBITA adj.² was NOK 580 million (NOK 749 million). The result in Other Businesses improved, whereas Performance Chemicals and Speciality Cellulose had a decline. Higher wood and caustic soda costs, increased lignin distribution costs, higher

fixed costs and depreciation from the Florida ramp-up as well as lower sales of acetate cellulose affected EBITA adj.² negatively. In Other Businesses, the improved result was due to increased prices and sales volume for bio-based vanillin. The net currency impact, including hedging, was in total positive.

Other income and expenses² were NOK 0 million (NOK -9 million).

Net financial items amounted to NOK -14 million (NOK -21 million). Profit before tax was NOK 562 million (NOK 715 million). Tax expense was NOK -137 million (NOK -157 million), giving a tax rate of 24% (22%). The tax rate is affected by accounting treatment of partly owned companies and carry forward losses not recognised as deferred tax assets, see Note 15. The corporate income tax rate in Norway was reduced from 23% to 22% from 1 January 2019.

The Borregaard Group had a profit for the year of NOK 425 million in 2018 (NOK 558 million). Earnings per share were NOK 4.76 (NOK 5.66).

Borregaard ASA's share price was NOK 74.80 at the end of 2018. Compared with the end of 2017, the share value decreased by 5.6% assuming reinvestment of dividends.

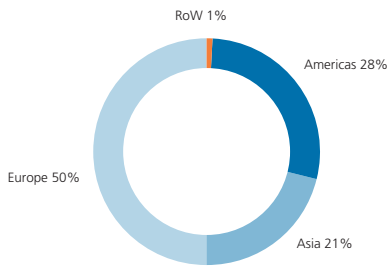
CASH FLOW AND FINANCIAL STRUCTURE

Cash flow from operating activities was NOK 558 million (NOK 780 million). The decline from 2017 was due the cash effect of a lower EBITDA adj.² and an unfavourable development in net working capital, partly off-set by lower tax payments. Investments amounted to NOK 762 million (NOK 968 million). Expansion investments², totalling NOK 416 million, were mainly related to the Florida project, the upgrade and specialisation of the lignin operation in Norway and the Ice Bear project in Speciality Cellulose. Dividend of NOK 199 million (NOK 349 million) was paid out in the 2nd quarter. Realised effect of currency hedging of net investments in subsidiaries was NOK -22 million (NOK 8 million). The Group has sold and repurchased treasury shares with a net payment of NOK 9 million (NOK 18 million).

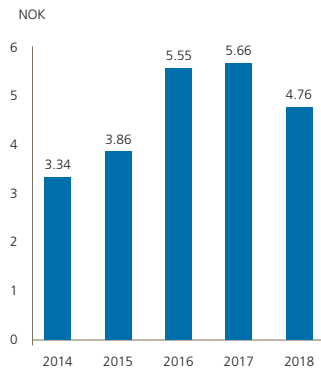
At year-end, the Group had net interest-bearing debt² totalling NOK 1,297 million (NOK 845 million), an increase of NOK 452 million from year-end 2017. The Group was well capitalised with an equity ratio² of 55.8% and a leverage ratio² of 1.44. As of 31 December 2018, the undrawn portion of available long-term credit facilities amounted to NOK 1,500 million.

² Alternative Performance Measures, see page 121 for definition.

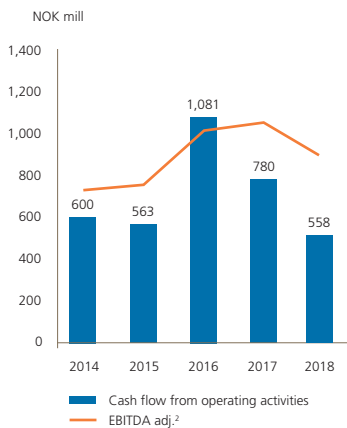
SALES REVENUES BY GEOGRAPHICAL AREA 2018



EARNINGS PER SHARE²



CASH FLOW FROM OPERATING ACTIVITIES



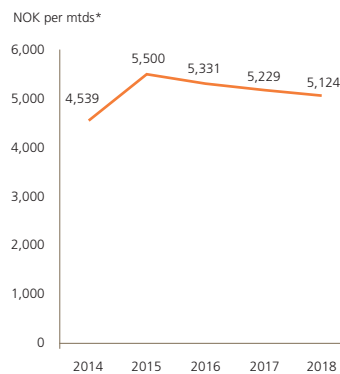
BUSINESS SEGMENTS

Performance Chemicals had operating revenues of NOK 2,237 million (NOK 2,176 million) in 2018. EBITA adj.² was NOK 314 million (NOK 449 million). The EBITA adj.² reduction was mainly due to increased costs and depreciation in the start-up year for the new Florida plant and higher distribution and other operating costs. LignoTech Florida had an EBITA adj.² of NOK -75 million (NOK -7 million) in 2018. Increased sales volume, diversification and specialisation off-set the effect of continued strong competition and weaker prices for lignin products to the concrete admixture market. Total sales volume was 4% higher and the average price in sales currency was 1% lower than in 2017. Net currency effects had a slightly negative impact compared with 2017.

Operating revenues for *Speciality Cellulose* were NOK 1,669 million (NOK 1,698 million). EBITA adj.² was NOK 257 million (NOK 350 million). The reduced EBITA adj.² was due to higher wood and caustic soda costs and weaker product mix as a result of lower sales of acetate cellulose, partly off-set by positive net currency effects and lower energy costs. The wood costs increased by NOK 80 million from 2017. Cellulose prices in sales currency were stable compared with 2017. The cellulose ether market continued to develop positively, while the cellulose acetate market remained challenging. The share of highly specialised cellulose

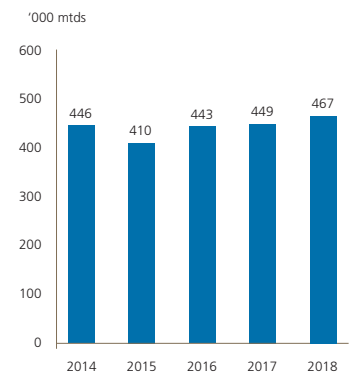
PERFORMANCE CHEMICALS

GROSS AVERAGE PRICE



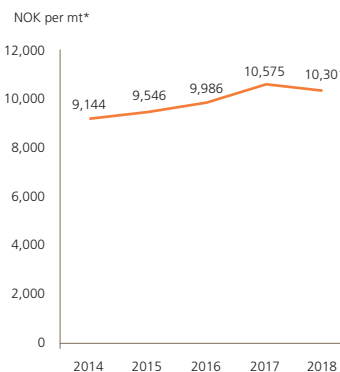
* Metric tonnes dry solids

SALES VOLUME



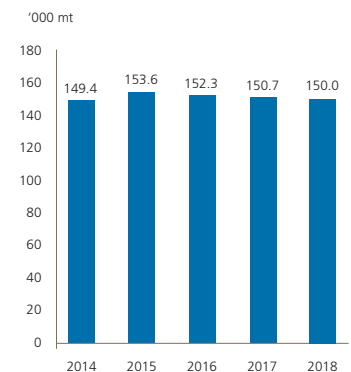
SPECIALITY CELLULOSE

GROSS AVERAGE PRICE



* Metric tonnes

SALES VOLUME



² Alternative Performance Measures measure, see page 121 for definition.

grades decreased to 62% (72%) of sales volume due to lower acetate cellulose sales. Production output was in line with 2017. The result for Bioethanol improved mainly due to improved product mix and increased sales prices.

Operating revenues in *Other Businesses* reached NOK 927 million (NOK 783 million). EBITA adj.² was NOK 9 million (NOK -50 million). A positive market trend and higher prices and sales volume for bio-based vanillin were the main reasons for the increase both in operating revenues and EBITA adj.² in *Other Businesses*. Fine Chemicals had sales in line with 2017, but higher costs resulted in an EBITA adj.² reduction. Cellulose Fibrils saw increased interest from the market in 2018, but continued to experience long lead-times for conversion of sales prospects. The positive effect of increased sales was off-set by plant optimisation and marketing costs, and the result was in line with 2017. Net corporate costs were similar to the 2017 level. The net currency impact in *Other Businesses* was insignificant.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Sustainability is an integral part of Borregaard's business model. This is reflected in the Group's main objective: Providing sustainable solutions based on renewable raw materials and unique competence. In 2017, Borregaard established a Sustainability Board. Borregaard's 2018 report on sustainability and corporate responsibility from page 17 outlines ambitions and achievements within climate and EHS, and Borregaard's commitment to business ethics and compliance. This report is an integral part of the Report of the Board of Directors.

FINANCIAL AND OPERATIONAL RISKS

Borregaard is financially exposed to currency risk for most of its sales, primarily in USD and EUR. A substantial part of this exposure, defined as estimated net cash flow in USD and EUR, is routinely hedged with a nine-month time horizon. Subject to certain criteria being met, the hedging horizon for USD and EUR exposure may be extended up to 36 months. In 2018, substantial EUR and USD amounts were hedged within a 3-year time horizon. See Note 28.

Borregaard is also exposed to price risk for energy, wood and other strategic raw materials. There is also a supply risk for lignin raw material. In sales, all Borregaard's business segments are exposed to price risk in international and domestic markets. Furthermore, there are production, environmental and safety risks inherently associated with the operation of manufacturing sites. To mitigate these risks, Borregaard has a strong commitment to continuous improvement throughout its worldwide operations, calling on a wide range of measures affecting both revenues and costs.

Credit risk for Borregaard is perceived to be modest due to the quality of its customer base and its stringent credit management policy. Short-term liquidity risk associated with cash flow fluctuations is low because Borregaard has ensured ample short-term and long-term credit facilities from a group of leading Scandinavian banks. As of 31 December 2018, the undrawn portion of available long-term facilities amounted to NOK 1,500 million.

The company's business activities and financial position, together with the factors likely to affect its future development and performance, are set out above. With its considerable financial resources, together with long-standing relationships with customers and suppliers across different geographic areas and industry sectors, the company is well placed to manage its ongoing business risks. With a strong equity ratio² and good liquidity, the company has adequate resources to continue its operations for the foreseeable future. Hence, in accordance with the Norwegian Accounting Act §3-3a, we confirm that the financial statements have been prepared under the assumption of a going concern. See Note 28 for further disclosure of financial and operational risks.

CORPORATE GOVERNANCE

Borregaard's governance systems are based on principles set out in the Norwegian Code of Conduct for Corporate Governance. In 2017, a Compliance Board was established in Borregaard. A report on Corporate Governance at Borregaard is found from page 50. This report is an integral part of the Report of the Board of Directors.

REMUNERATION OF GROUP EXECUTIVE MANAGEMENT

The Board of Directors has established a Compensation Committee which deals with all important matters related to salary and other remuneration of senior executives before such matters are decided by the Board. In accordance with Norwegian legislation, the Board has also established guidelines for salary and other remuneration of senior executives. The Guidelines for 2018 are included in Note 9 to the consolidated financial statements.

SHAREHOLDER MATTERS

All shares in Borregaard ASA have equal rights and are freely traded. The company has established a programme enabling employees to purchase shares at a discounted price. In connection with this programme and the share option programme for the Group Executive Management and other key employees, Borregaard ASA held 450,215 treasury shares as of 31 December 2018 and 474,764 as of 13 March 2019. See Note 9 regarding share options.

² Alternative Performance Measures, see page 121 for definition.

Total number of shares outstanding as of 31 December 2018 was 100 million, including 450,215 treasury shares. Total number of shareholders was 8,093. Borregaard ASA's share price was NOK 74.80 at the end of 2018, compared with NOK 81.50 at the end of 2017.

IMPLEMENTATION OF IFRS 9 AND IFRS 15

In 2018, Borregaard has implemented IFRS 9 and IFRS 15. The implementations had no significant impact for Borregaard.

OTHER MATTERS AND SUBSEQUENT EVENTS

Shares to employees

As part of the employee share programme, Borregaard sold a total of 297,756 shares to employees in February 2019. The share price was NOK 57.64 per share after deduction of a 25% discount. See *notifications to the Oslo Stock Exchange on 4 and 11 February and 1 March 2019*.

Share options issued

In February 2019, 400,000 share options at a strike price of NOK 82.35 were granted under the long-term incentive programme. The options will expire after five years, the vesting period is three years and the options may be exercised during the last two years. See *notification to the Oslo Stock Exchange on 6 February 2019*.

Treasury shares

From 4 to 13 March 2019, Borregaard has purchased 142,000 shares under a programme aimed at repurchasing a total of 300,000 own shares. The total amount of treasury shares held by Borregaard as of 13 March 2019 is 292,996. See *notifications to the Oslo Stock Exchange from 1 March 2019 and onwards*.

Issuance of commercial paper

On 21 February 2019, Borregaard ASA issued a commercial paper of NOK 300 million with maturity date 21 May 2019. See *notifications to the Oslo Stock Exchange on 18 and 25 February 2019*.

There have been no events after the balance sheet date that have had a material impact on the financial statements or the assessments carried out.

Implementation of IFRS 16

IFRS 16 is implemented from 1 January 2019. The financial impact will be limited on the Consolidated Financial Statement, see Note 3.

ALLOCATION OF PROFIT

The Board has proposed a dividend for 2018 of NOK 2.25 (NOK 2.00) per share to the General Meeting. This corresponds to 47% of net earnings per share. Dividend payment is estimated at NOK 224 million. The exact amount will depend on the number of treasury shares held at the date of the General Meeting.

In 2018, Borregaard ASA had a profit of NOK 240 million (NOK 386 million). Borregaard ASA is well capitalised with an equity ratio² of 70.0% after payout of the proposed dividend. The Board proposes the following allocation (NOK million):

Dividend	224
Retained earnings	16
TOTAL	240

OUTLOOK FOR 2019

Continued strong competition and further price pressure for lignin products to the concrete admixture market is expected to be partly compensated by diversification and specialisation. Total sales volume is forecast to increase by about 10%, mainly due to the ramp-up in Florida. The higher distribution costs will gradually decline over the next quarters. Fixed costs and depreciation for the Florida plant is expected to be approximately NOK 40 million higher in 2019 compared with 2018.

The average cellulose price in sales currency is expected to be in line with the 2018 level. Improved product mix will compensate for weaker prices for acetate and textile cellulose. Wood prices will increase further from the beginning of 2019, and Borregaard's wood costs in the first half of 2019 will increase by about NOK 50 million compared with the first half of 2018.

Ingredients is expected to increase its result in 2019, driven by the positive market trend for bio-based vanillin. No major changes are expected in the market conditions for Fine Chemicals. Sales will gradually increase for Cellulose Fibrils, but lead-times for conversion of sales prospects are long. The remaining grant from EU Horizon 2020³ will cover a smaller share of costs than in previous years. Corporate costs will remain at the same level as in 2018.

² Alternative Performance Measures, see page 121 for definition.

³ This project has received funding from the Bio-Based Industries Joint Undertaking (BBI) under the European Union's Horizon 2020 research and innovation programme under grant agreement No 709746.



Sarpsborg, 13 March 2019

THE BOARD OF DIRECTORS OF BORREGAARD ASA

Jan Anders Oksum
JAN ANDERS OKSUM
Chair

Terje Andersen
TERJE ANDERSEN

Tove Andersen
TOVE ANDERSEN

M. Hauge
MARGRETHE HAUGE

Helge Aasen
HELGE AASEN

Åsmund Dybedahl
ÅSMUND DYBEDAHL

Ragnhild Anker Eide
RAGNHILD ANKER EIDE

Per Sørli
PER A. SØRLIE
President and CEO



Sustainability and corporate responsibility

Responsible business	20
A: Sustainable business model	27
B: Climate, environment, health and safety	29
C: Employee and competence development	40
D: Suppliers and business partners	42
E: Contribution to society	45

2018



HIGHLIGHTS

CERTIFIED RAW MATERIALS

92%

OF 1,000,000 M³ WOOD



RESEARCH EFFORTS

190

MILL NOK



ENERGY

63%

RENEWABLE ENERGY



EMISSION REDUCTIONS

40%

REDUCTION IN CO₂
OVER THE LAST 10 YEARS



CLIMATE RATING

A

CDP'S CLIMATE CHANGE A LIST



DIVERSITY

25%

FEMALE EMPLOYEES



RESPONSIBLE BUSINESS¹

Borregaard's main objective is to develop sustainable solutions based on renewable raw materials and its unique competence. Borregaard's entire business model centres around sustainability, and therefore this is always a natural component of its overarching goals. The company's Board of Directors emphasises the importance of sustainability as an integral part of the company's operations and development.

GLOBAL CHALLENGES AND SUSTAINABLE SOLUTIONS

Borregaard's innovative solutions can play an important role in addressing the world's greatest sustainable development challenges; population growth and climate change.

UN predicts population growth of 12% by 2030², which will generate extraordinary demand for climate friendly solutions for infrastructure, housing, energy, jobs and food production.

One urgent challenge the world is currently facing is climate change³. The Paris Agreement and the UN Climate Panel have defined specific sustainability goals and measures within areas such as access to raw materials, energy, food and infrastructure. These initiatives are expected to increase demand for sustainable products, which will provide Borregaard with a broad platform for developing innovative solutions.

Borregaard will, as a company, take climate action and demonstrate how its business can help to advance sustainable development by both minimising negative environmental impacts and maximising positive environmental impacts. The Intergovernmental Panel on Climate Change (IPCC)⁴ provides a clear description of the world's challenges through the Special Report where it stresses the dramatic difference between an increase in the global average temperature to 2°C above preindustrial levels and pursuing efforts to limit the temperature increase to 1.5°C above preindustrial levels.

Borregaard joined the Science Based Targets Initiative⁵ in 2017 and has defined a science-based target that is in line

with the level required to keep the global temperature rise below 2°C compared with pre-industrial temperatures⁶. See page 29.

BORREGAARD'S CONTRIBUTION TO THE UN'S 2030 AGENDA

Borregaard has prioritised six of the seventeen Sustainable Development Goals set out in the UN's 2030 Agenda for Sustainable Development. The priorities were selected based on the global challenges the world faces, as well as the solutions the company can contribute. The six prioritised Sustainable Development Goals are: (2) Zero hunger; (8) Decent work and economic growth; (9) Industry, innovation, and infrastructure; (12) Responsible consumption and production; (13) Climate action; and (15) Life on land. Borregaard can have an impact in these areas through its unique biorefinery concept and its sustainable products.

The six prioritised Sustainable Development Goals are closely linked to Borregaard's core operations and are in line with the company's business strategy. They are used as a framework for guiding, communicating and reporting on the company's strategy, goals and activities. Borregaard will continue its work on identifying future business opportunities associated with specific Sustainable Development Goals.

Specific targets and KPIs are presented in this report under the relevant topics. You will find a complete overview of Borregaard's contributions to all seventeen Sustainable Development Goals on pages 48 and 49.

¹ Borregaard ASA has a statutory duty to comply with the reporting requirements for corporate social responsibility in Section 3-3c of the Norwegian Accounting Act. This requires Borregaard to account for "what the company is doing to integrate respect for human rights, labour rights and social issues, the environment and anticorruption in their business strategies, in their daily operations and in their relationship with stakeholders."

² UN. Dugarova, Esuna & Gulasan, Nergis. (2017). *Global Trends: Challenges and Opportunities in the Implementation of the Sustainable Development Goals*.

³ IPCC, 2013: *Summary for Policymakers*. In *Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* [Stocker, T.F., D. Qin, G.-K. Plattner, M. Tignor, S.K. Allen, J. Boschung, A. Nauels, Y. Xia, V. Bex and P.M. Midgley (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

The consolidated figures in Borregaard's Sustainability Report do not include figures from the Group's joint venture in South Africa. Borregaard in Sarpsborg accounts for about three-quarters of the Group's operations (revenues and employees) and thus faces the biggest challenges with respect to EHS, climate and social issues.

⁴ IPCC, 2018: *Summary for Policymakers*. In: *Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [V. Mas son-Delmotte, P. Zhai, H. O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J. B. R. Matthews, Y. Chen, X. Zhou, M. I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, T. Waterfield (eds.)]. World Meteorological Organization, Geneva, Switzerland, 32 pp.

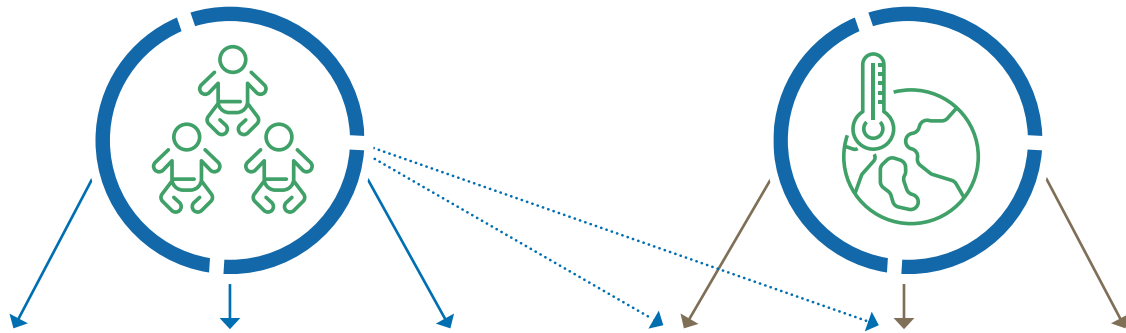
⁵ Partnership between CDP, UN Global Compact, WRI and WWF.

⁶ The Intergovernmental Panel on Climate Change (IPCC AR5), the Fifth Assessment Report.




BORREGAARD'S CONTRIBUTION TO THE SDGS

GROWING POPULATION

CLIMATE CHANGE

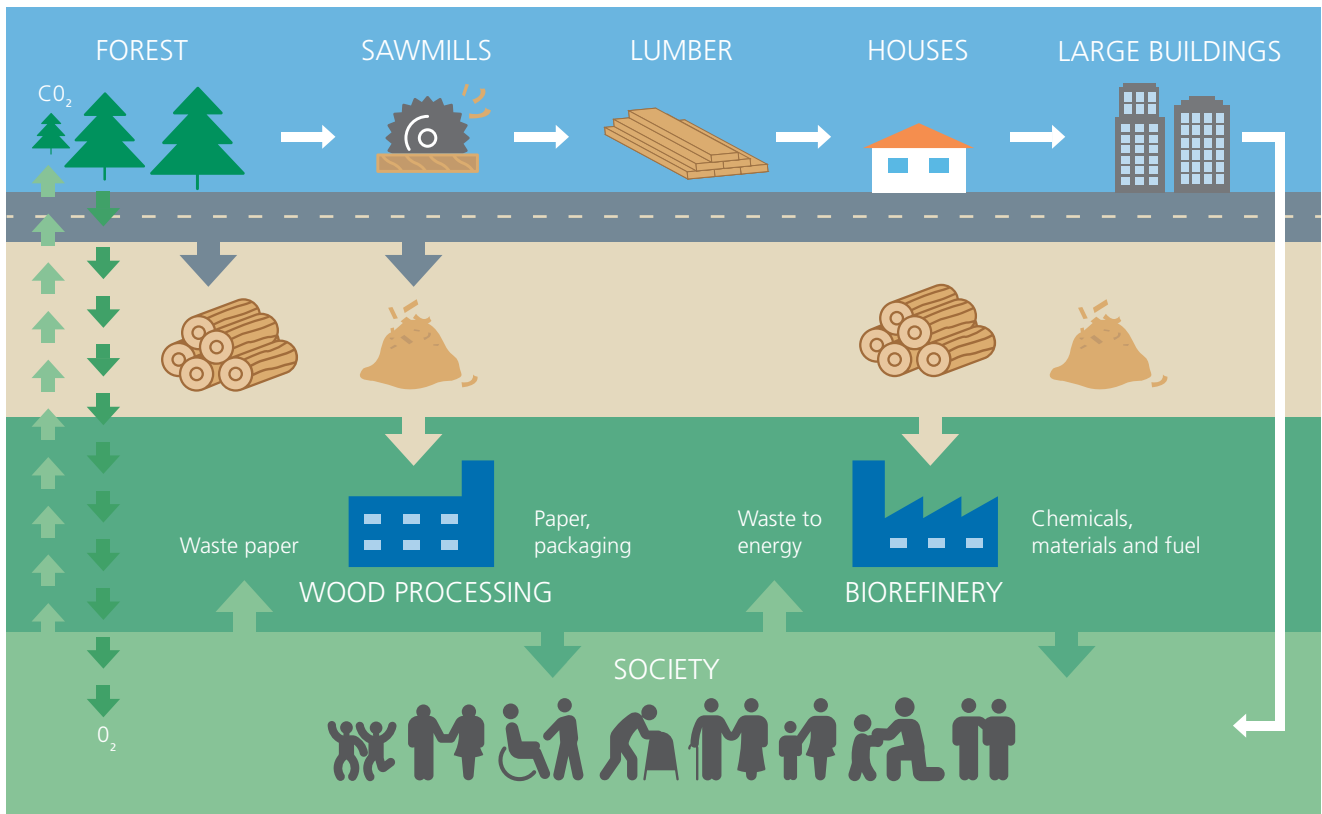


THE SIX PRIORITISED SUSTAINABLE DEVELOPMENT GOALS

<p>2 ZERO HUNGER</p> 	<p>8 DECENT WORK AND ECONOMIC GROWTH</p> 	<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	<p>13 CLIMATE ACTION</p> 	<p>15 LIFE ON LAND</p> 
<p>SUSTAINABLE FOOD PRODUCTION</p>	<p>SUSTAINABLE BUSINESS</p>	<p>SUSTAINABLE INDUSTRY</p>	<p>SUSTAINABLE PRODUCTION</p>	<p>SUSTAINABLE BIOREFINERY</p>	<p>SUSTAINABLE RAW MATERIAL</p>
<ul style="list-style-type: none"> • Efficient and sustainable feed products • Growth stimulants for food plants • Improved and sustainable crop solutions and protection • Raw materials do not compete with food production 	<ul style="list-style-type: none"> • Profitability as a prerequisite in addition to environmental and social dimensions in the sustainability scope • High value creation and local partners and suppliers create substantial ripple effects in society • Profitability allows investments, R&D and competence development 	<ul style="list-style-type: none"> • Market-driven innovation that involves the entire organisation • Uses a significant share of revenues on innovation • New and improved products with better performance • Delivers sustainable products and solutions to the construction industry 	<ul style="list-style-type: none"> • Full utilisation of raw materials • Continuously improved life-cycle impact • Sustainable sourcing programme • Continuous productivity improvements, including digitalisation • Improved chemical safety 	<ul style="list-style-type: none"> • The biorefinery concept with sustainable products is an essential part of the business model • Science-based target for reduced GHG footprint • Environmental/ climate impact part of investment project evaluation • Investments in renewable energy 	<ul style="list-style-type: none"> • Bio-based raw materials from responsibly managed and certified sources • Chain of Custody certified in accordance with FSC® and PEFC forest certification standards

GLOBAL CHALLENGES

OUR CONTRIBUTION



THE CIRCULAR ECONOMY AND CASCADING USE OF BIOMASS IN BORREGAARD

In a circular economy, the aim is to make the best possible use of society's resources for as long as possible. This can be done by reducing the use of raw materials, waste, emissions and energy consumption, as well as by reusing products, either for their original purposes or for completely different purposes. One of the basic principles is to view waste as a resource and design products in a way that ensures materials can be recovered more efficiently.

The efficient utilisation of side streams and cascading use are cornerstones of a circular economy. In this context, cascading means that the biocarbon is utilised in several stages instead of it being emitted. In the final stage, the energy value of the products is utilised. This allows the raw materials and final products to be used for as long as possible by society before their life cycle ends.

Borregaard aims to develop and deliver sustainable solutions based on renewable raw materials and unique competence, and therefore both circular economy and cascading use

are natural components of Borregaard's operations. The company's most important raw material, Norway Spruce, is sustainable and harvested from certified forests with short transport routes. Borregaard utilises around 85% of a log for its products, and therefore has limited quantity of residual biomass for energy. At the biorefinery in Sarpsborg, Borregaard obtains energy from electricity as well as bioenergy from self-produced biogas and residual material from its bioproduction, the incineration of sorted household waste at two different waste incineration facilities connected to the biorefinery, from a boiler that burns biofuel and from a steam boiler fuelled by natural gas. Constantly increasing Borregaard's energy efficiency, as well as streamlining production, decreases the input factors per tonne of product produced and thus continually reduces the products' CO₂ footprint.

The wood-based industry is by its nature a circular bioeconomy. Wood from forests is sent to both sawmills and wood processing. Side streams such as wood chips, sawdust and bark from the sawmills end up in the pulp and paper industry, in the production of construction boards

and in energy production. Paper and packaging are returned to the industry for recovery once they are no longer of use elsewhere in society. Biorefineries such as Borregaard receive waste, which is used to generate energy for the operation of production facilities and to deliver a range of sustainable products back to society.

There are a number of ways in which the principle of cascading can be implemented. Products can be reused as they are, or transformed into new products, be sent to recovery and, ultimately, converted into energy via incineration or the production of biogas. The basic principle is that resources should be reused as materials for as long as possible before they are incinerated.

Wood chips represent a side stream from sawmills, but are an important raw material for Borregaard. A log consists of cellulose, lignin and sugar. The sugar and lignin, which are traditionally viewed as side streams from cellulose production, are used in the production of bioethanol, lignin products and vanillin, respectively. The residual streams that are left over are used as raw materials in the production of biogas, which is used as a source of energy in Borregaard's production processes.

Some side streams from production are also sold to other industries, which in turn use them as raw materials in their production. One example is knot pulp, which is removed from the cellulose and sold to manufacturers of packaging materials.

The residual energy from Borregaard's production processes is the main source of energy for the district heating plant in Sarpsborg, replacing oil heating. In this way, Borregaard, both internally and together with external suppliers and

customers, is part of an intricate and well-established cascading system for bio-based products, intermediate products and side streams. In other words, Borregaard's biorefinery is built on the principles of both cascading and circular use.

RISK MANAGEMENT

Identifying and managing risks and opportunities are integrated multidisciplinary parts of the Group's business processes. Borregaard has established a system for risk assessment and management in which climate risk comply with the Task Force on Climate-related Financial Disclosures (TCFD). Each member of the executive management team is responsible for internal control and risk assessments within their respective areas. Risk assessments are reviewed annually by the company's board of directors. Borregaard's physical, regulatory, market, cost, and legal risks associated with climate change are featured on pages 30 and 31 of the Sustainability Report, as well as on Borregaard's webpage.

The stakeholders' perspective is taken into consideration when assessing and managing risks with potential environmental, social and economic impacts throughout the company's value chain.

DID YOU KNOW THAT...

Borregaard uses more than **85%** of a log of wood for products? The rest is used for bio-energy for the production processes.

85%

DID YOU KNOW THAT...

The international climate organisation CDP gave Borregaard an **A** for its contribution to positive climate change? Only 1.8% of the reporting companies received this grade globally.



ORGANISATION AND RESPONSIBILITY

Borregaard must comply with a number of guidelines and reporting procedures as part of its corporate responsibilities. The main documents have been approved by the company's board of directors, which also sets the overarching goals for the areas covered by this report.

Guidelines⁷:

- General Guidelines for Environment, Health, Safety and Climate
- Human Rights Policy
- Anti-Corruption Manual
- Corporate Responsibility
- Code of Conduct
- Corporate Governance Principles
- Responsible Sourcing Policy
- Competition Law Compliance Manual

The Group's executive management team bears overall responsibility for monitoring the company's goals, measures and results. Their daily implementation is a line management responsibility in Borregaard. This means that corporate responsibilities are an integral component of all of the operations of Borregaard's subsidiaries, as well as in various management teams, units and departments.

SUSTAINABILITY BOARD

In 2017, Borregaard established the Sustainability Board. The board addresses and monitors important topics, and also initiates processes in which guidelines, goals and measures are developed within the areas covered by this report. The Sustainability Board reports to the CEO and is chaired by the Senior Vice President of Organisation and Public Affairs.

STAKEHOLDER AND MATERIALITY ANALYSIS

Borregaard fulfils its corporate responsibilities by developing and running its operations profitably and in a manner that conforms with fundamental ethical values and respect for individual people, society as a whole and the environment.

This approach includes maintaining a dialogue with the Group's most important stakeholders. They are taken into account when running the business and when decisions are made. Maintaining contact with the company's various stakeholders is an important means of building trust in Borregaard, as well as understanding the role the company plays in local communities and society as a whole.

Borregaard has conducted a stakeholder and materiality analysis based on the Group's sustainability strategy. The analysis identifies the economic, social, climate and environmental consequences of the company's operations

that have the greatest impact on stakeholders' assessments and decisions.

As a basis for this analysis, Borregaard surveyed the groups, organisations and individuals that are either impacted by the company's operations or which, in a variety of ways, have an impact on the company's strategy and goal achievement. Borregaard's stakeholders include investors and lenders, current and potential employees, the authorities, current and potential customers, suppliers, local communities and neighbours, partners, organisations and the media. The model below shows which groups of stakeholders are regarded as most important for Borregaard:



Borregaard has also identified the company's most important and relevant risks and opportunities based on the company's core operations and the geographical locations of its units, customers and suppliers. The results are based on Borregaard's values, guidelines, risk assessments and strategy, as well as how Borregaard as a company impacts its stakeholders financially, environmentally and socially. The areas also reflect the topics the company's stakeholders are interested in.

The focus areas defined as the most important are described in more detail in Borregaard's Sustainability Report, chapters A to E, and reflect the company's five main areas:

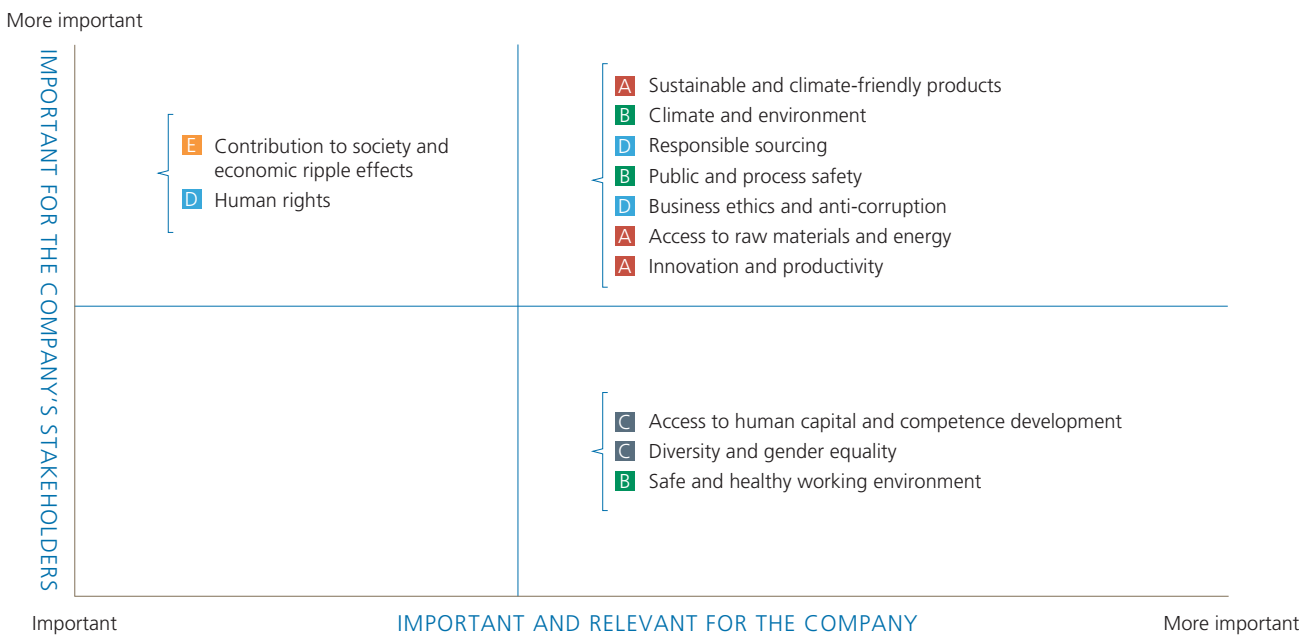
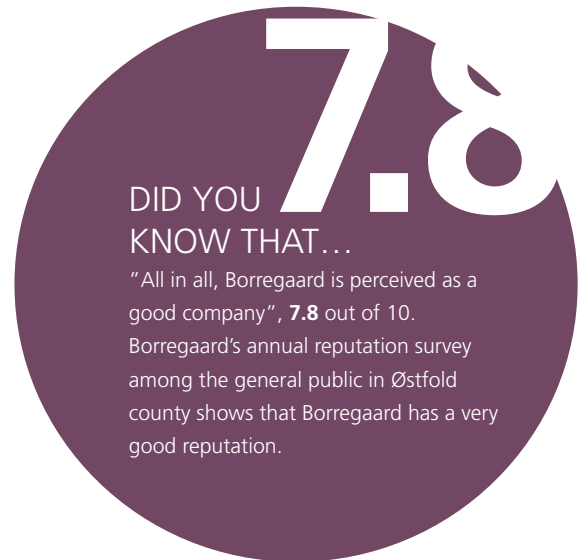
- A sustainable business model
- Climate, environment, health and safety
- Employee and competence development
- Suppliers and business partners
- Contribution to society

⁷ Read more at: <https://www.borregaard.com/Sustainability/Corporate-responsibility/Policies>.

Each unit in the Borregaard Group must assess issues that are relevant to the relationship between the company and society as a whole, facilitate good dialogues and ensure that complaints and other enquiries from external stakeholders are dealt with in a proper manner. The need to implement improvement projects in areas with specific challenges must be assessed on an ongoing basis.

Based on the results from the stakeholder and materiality analysis, Borregaard has Sustainable Development Goals set out in the UN's 2030 Agenda for Sustainable Development. Borregaard has linked its strategy to the most important topics in the Sustainable Development Goals such that they are in line with the UN's 2030 Agenda (see the illustration on page 21).

The illustration below specifies the degree of importance for Borregaard's stakeholders, as well as what is important and relevant for Borregaard.



The coloured boxes refer to the main areas described in the Sustainability Report.



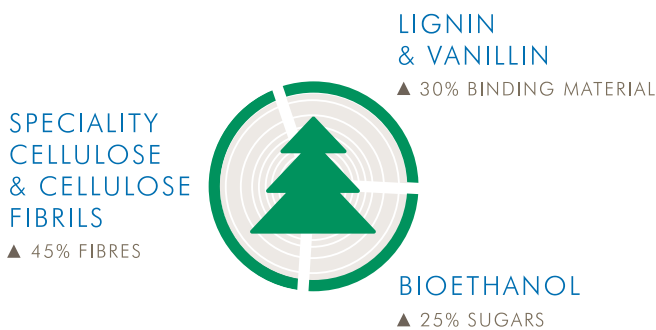
MAIN AREAS

Sustainability and corporate responsibility is a broad concept that covers many areas. Based on the stakeholder

and materiality analysis, Borregaard has defined the following main areas:



A SUSTAINABLE BUSINESS MODEL



BORREGAARD'S BUSINESS MODEL

- Renewable raw materials
- High raw material utilisation
- Environmentally friendly substitutes for petrochemicals

Borregaard's understanding of sustainability and corporate responsibility derives from the fact that the business model itself, how the Group is run and the company's products are sustainable and meet global needs. The world faces numerous different challenges associated with population growth and urbanisation in the years ahead. Borregaard's wood-based products are alternatives to oil-based products. The wood is harvested from sustainable sources and the company is constantly working to reduce its carbon footprint and the total environmental impact of its production processes. Innovation plays an important role in improvements, both in terms of reducing process emissions and improving product performance.

SUSTAINABLE RAW MATERIALS

Borregaard's biorefinery utilises bio-based raw materials that meet environmental and sustainability criteria. The Group attaches great importance to sourcing wood from forests that are managed in a proper, sustainable and eco-friendly manner.

The Group's production units outside Norway mainly obtain lignin raw materials from nearby cellulose plants. All of these suppliers use wood from certified (Forest Stewardship Council® (FSC)) sources. This is described in more detail in chapter D. Borregaard has also developed the patented BALI

concept, which could provide further lignin raw materials in the long-term. The concept is based on extracting lignin from various forms of biomass, including agricultural waste. The technology is not yet in commercial operation, but represents an option for the future.

CLEANTECH

Cleantech is an industry term used to describe products or services that improve operational performance, productivity or efficiency, while minimising costs, raw materials, energy consumption, waste or pollution. Borregaard is thus a good example of cleantech. The Group's bio-based products do well from a climate perspective when compared with petrochemical products. Borregaard has also made efforts to reduce greenhouse gas emissions in its production processes, including by elimination of heavy fuel oil and increasing the amount of energy supplied from more eco-friendly energy sources.

LIFE CYCLE ANALYSIS

Borregaard has engaged an independent third party, Ostfold Research, to conduct a life cycle assessment (LCA) based on the ISO 14044/48 standard. This analyses the environmental impacts Borregaard's products have from raw materials to finished products. The study was carried out for the first time in 2008 and has since been updated on several occasions,

most recently in 2015. The analysis confirms that the environmental and climate impacts of Borregaard's products have diminished over time.

Ostfold Research has conducted an analysis in which Borregaard's products were compared with competing products. All of the comparisons covered a number of environmental impact categories. The analysis confirmed that Borregaard's products provide better environmental performance than the alternatives in almost all environmental categories and indicate environmental benefits from replacing the alternatives with the company's products.

RESEARCH AND DEVELOPMENT (R&D)

Innovation and R&D are important for renewing operations and also necessary to strengthen the company's financial and environmental sustainability.

Borregaard's R&D efforts in 2018 amounted to NOK 190 million. This represents 4% of the company's revenues.

Borregaard has an R&D team of 97 employees, including 34 PhDs. The R&D primarily takes place at the Group's research centre in Norway, which at year-end 2018 employed 67 people from nine different countries. R&D activities also take place at the sites in Spain, South Africa, India and the US. Some R&D work is carried out in partnership with customers, universities and research institutions in several countries.

In 2018, Borregaard recognised NOK 90 million (NOK 85 million) in support for ongoing R&D projects, mainly from the EU's Horizon 2020⁸ programme, the Research Council of Norway, Innovation Norway and Skattefunn⁹.

CONTINUOUS IMPROVEMENT AND DIGITALISATION

To maintain sustainable operations, continuous improvement is important and an integral part of Borregaard's strategy.

Productivity efforts lead to better ways of making products through new use of technology, competence development and a more efficient organisation.

Digitalisation is one important approach to productivity improvement. Borregaard has increased the use of new technology and digital solutions to monitor, control and analyse the production systems. In addition, new digital solutions are developed and implemented both within marketing and in financial and administrative processes. A number of digitalisation projects are ongoing, and Borregaard exchanges knowledge and solutions across production units. Training and organisational development are important parts of these improvement projects.

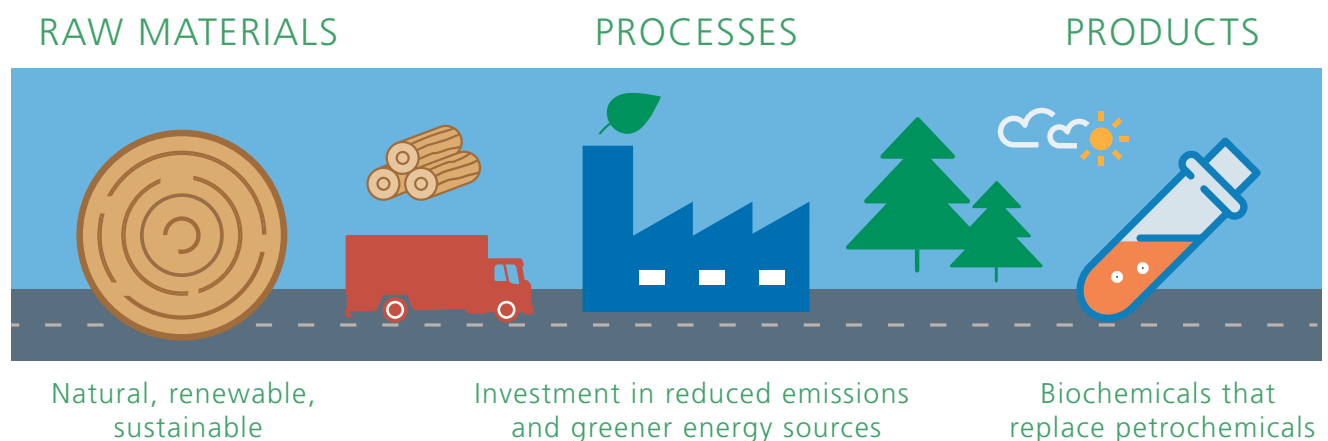
KEY INITIATIVES AND RESULTS IN 2018

Reductions in emissions in most categories, as well as further development of new bio-based products, strengthened Borregaard's sustainability profile in 2018.

In 2018, Borregaard completed an upgrade of the production facility for bioethanol, as well as a facility for capturing and storing biogas. The upgrade has enabled Borregaard to increase its production volume of water-free bioethanol for fuel. This market is growing, driven mainly by increased demand for bioethanol as a fuel additive. The project involved the installation of modern production technology, which has substantially reduced the energy consumed in the production process. Energy consumption per litre of produced water-free bioethanol has fallen by 67% following the upgrade.

Innovation plays an important role in maintaining sustainable development. Borregaard measures the company's innovation rate as the proportion of revenues coming from new products launched in the past five years.

In 2018, Borregaard's innovation rate was 13% (13%). The average innovation rate for the last five years is 15% (15%).



⁸ Support from the Bio-Based Industries Joint Undertaking (BBI) under the EU's Horizon 2020 research and innovation programme in grant agreement no. 709746.

⁹ A government program designed to stimulate research and development (R&D) in Norwegian trade and industry.

KEY TARGETS 2018	RESULTS	COMMENTS
Further development of new bio-based products	On going	R&D efforts to develop bio-based sugars, improved lignin products and new cellulose-based products
Increased production capacity for bio-based products	Achieved	Completed investment in a 100,000 mtds lignin plan in Florida and increased capacity of fuel grade (100%) bioethanol
An innovation rate of 15%	Not achieved	13% in 2018, average innovation rate last 5 years is 15%
Improved sustainability from an LCA perspective	Achieved	Improved energy solution for bioethanol. No major changes in other production/transportation set-up

KEY TARGETS 2019

Continued development of new bio-based products
Increased sales and production of bio-based products
An innovation rate of 15%
Further improvement of sustainability from an LCA perspective

B

CLIMATE, ENVIRONMENT, HEALTH AND SAFETY



Environment, health, safety (EHS) and climate are an integrated part of both Borregaard's business model and its sustainability strategy. The Group is actively working on measures that can contribute to sound environmental and resource management. Borregaard's ambitions and guidelines within climate and EHS are set out in a separate policy document (see the overview on page 24). The General Guidelines for Environment, Health, Safety and Climate was updated in 2017 to underscore Borregaard's ambitions in this area. Borregaard's overall EHS and climate goals are that the company and its activities will contribute to sustainable solutions, with no harm to people or to the environment.

Borregaard has dedicated support functions for EHS and risk management. The stakeholder analysis provides important data for the risk assessment process and is therefore revised frequently. Risk management covers every aspect of Borregaard's activities and self-assessments are conducted in relation to EHS. The risk management process systematically identifies injury, fire, explosion and unwanted hazardous substances emission risks. The Board of Directors reviews the Group's risk picture at least once a year.

Borregaard monitors EHS and climate parameters and reports on these in monthly KPI reports, as well as in expanded interim reports. EHS and climate results are reported monthly to the company's board of directors. This is also a separate item on the agenda of each board meeting.

The Sustainability Board discusses ambitions and measures regarding EHS and climate to ensure common practices throughout the Borregaard Group.

CLIMATE CHANGE – GREENHOUSE GAS EMISSIONS

Borregaard has chosen a target based on the most ambitious pathway for greenhouse gas cuts¹⁰ (the IPCC's Representative Concentration Pathway (RCP) 2.655) which is in line with the Norwegian Climate Act, meaning that the Group will assume responsibility for its share of the reduction in greenhouse gases necessary to transition to a low-emission society. The target is also within the industry range which is specified in the Special Report, projected to be 65-90% lower in 2050 relative to 2010.

Borregaard aims to cut the direct and indirect emissions associated with the production of its products (scope 1 and scope 2) by 50% by 2030 and by 75% by 2050 (base year 2009). An assessment of Borregaard's future emissions indicates that it is possible to achieve this target by further reducing energy consumption and increasing the use of renewable energy. Direct and indirect emissions have been cut by around 34% since the base year. Emissions from activities in the value chain (scope 3) will be reduced by 75% by 2050 (base year 2017). Cuts will especially be made within transport solutions and the procurement of goods and services. The biorefinery's products are made from wood (a renewable raw material) and therefore generate no extra CO₂ emissions, either in their usage phase or the end of life treatment phase.

Borregaard has disclosed information to the CDP investor initiative since 2015. The initiative has evolved into an internationally leading system for climate and environmental reporting, and is backed by more than 800 institutional investors. The goal of CDP is to enable companies to measure and manage environmental impact. Borregaard has

¹⁰ IPCC Representative Concentration Pathway 2.6.

been highlighted as a global leader on corporate climate action by environmental impact, achieving a place on the CDP Climate Change A List for its reporting for 2018.

Greenhouse gas emissions are reported in accordance with the Greenhouse Gas Protocol (GHG Protocol), which is a standard for calculating and reporting greenhouse gas emissions associated with operations, both direct and indirect, from the production of products, as well as from all activities in the value chain.

Climate risks and opportunities

One important element of Borregaard's operations involves utilising renewable raw materials for the production of climate-friendly alternatives to products from fossil raw materials. Wood-based products from sustainably managed forests are considered part of the solution to the climate challenges¹¹.

As far as greenhouse gas emissions from a life cycle perspective are concerned, Borregaard's bio-based products are considered more climate-friendly than petrochemical alternatives. Borregaard's most important contribution will, therefore, be the further development of its business model in order to meet future demand for advanced, renewable and climate-friendly biochemicals and biomaterials. At the same time, greenhouse gas emissions in both production processes and throughout the value chain must be cut. Borregaard has set ambitious, science-based targets for this area. Society has established various support schemes to meet the needs of a low-emission society, and Borregaard already receives support for measures within both energy reduction and new products.

The potential impacts of climate change, such as extreme precipitation and drought, pose a relatively low operational

risk for Borregaard. However, milder winters could raise the cost of harvesting and transporting wood in the Nordic region. Costs could also increase as a result of increased competition for this raw material in connection with the transition to a more bio-based society. Borregaard sources wood from several different areas in order to reduce the risk. The Group also has well-established solutions for transporting wood by road, rail and sea, in addition to flexible storage of wood.

The most important transition risk is that the costs associated with greenhouse gas emissions will increase, for example as a result of the EU Emissions Trading System (EU ETS). Borregaard has managed this risk by establishing a long-term climate and energy strategy in which its use of renewable energy sources has increased, while energy consumption in production has decreased. In the last decade, Borregaard's operations in Sarpsborg has replaced the use of heavy oil with more climate and eco-friendly sources of energy. During this period, the Borregaard Group has reduced its direct CO₂ emissions by 40%. Given this, Borregaard will have surplus of free allowances until 2020. In the period 2020-2030, the EU ETS will provide fewer free allowances and it is likely that energy costs will increase. Borregaard's favourable position with respect to the use of renewable energy, as well as the Group's planned measures for cutting CO₂ in the long-term, have substantially reduced the risk associated with an increase in CO₂ costs.

Technologies for further reduction in energy consumption and availability of more renewable sources like electricity from hydropower and biogas are important tools to achieve the company's ambitious GHG emission reduction targets (science-based targets). Development in technologies for Carbon Capture and Storage (CCS) or sustainable Carbon Capture and Use (CCU) may be a prerequisite. Borregaard in Sarpsborg has signed an agreement with a cluster of companies in the region to make a possibility study regarding technologies and value chains for CCS and CCU.

Energy consumption and greenhouse gas emissions

Borregaard's direct emissions of the greenhouse gas CO₂ mainly stem from fossil fuels used in the production of heat energy.

93% of Borregaard's direct CO₂ emissions in 2018 originated from the operations in Sarpsborg, 5% from the German operations and the remaining 2% from the company's operations in the US, Spain, the Czech Republic and the UK. Borregaard's operations in Sarpsborg and Germany hold ISO 50001 certification for energy management. 98% of the Borregaard Group's total energy consumption is thus covered by certified management systems.



¹¹ <http://www.ipcc.ch/ipccreports/tar/wg3/index.php?idp=167>

Borregaard's operation in Sarpsborg currently meets its base need for heat energy (base load) in the form of steam through energy recovery from waste, bioenergy and heat recovery from production. Borregaard stopped using heavy fuel oil for steam production in 2013 when a new multi-fuel boiler that mainly uses liquefied natural gas (LNG) was commenced. CO₂ emissions associated with LNG are 25% lower than those from heavy fuel oil. Peak load production is now based on a combination of LNG and electricity. The CO₂ emissions associated with the production of heat energy will, therefore, vary from year to year, depending on the energy source for peak load and production volume. In 2018 the main source for peak load was LNG.

Borregaard's operations in Germany and Florida use LNG in steam production and focus on energy optimisation.

Key initiatives and results in 2018

In 2017, Borregaard completed a three-year energy efficiency programme intended to reduce energy consumption at the plant in Sarpsborg by better utilisation of surplus heat. 2018 was the first year with the full effect of all of the measures and annual energy consumption was cut by 73 GWh. The programme received financial support from Enova¹² equivalent to 42% (NOK 46 million) of the total investment of NOK 107 million.

During the period 2016-2018, Borregaard also conducted an energy efficiency project in the company's fine chemicals operations in Sarpsborg, where three out of four projects were supported by Enova. The main objective was to increase heat recovery by improving heat exchangers and using heat pumps. In 2018, the project resulted in a saving of 20.6 GWh annually, compared with 2015. The project is expected to deliver further savings in 2019.

In 2018, Borregaard invested NOK 63 million in upgrading the bioethanol production plant. The project included a facility for storing biogas that will increase the amount of renewable energy used in Borregaard's processes. The project also involved the installation of modern production technology which has reduced specific energy use in this plant by 67%. The biogas project is showing promising results. The increased use of biogas has replaced propane as an energy source, equivalent to 45 GWh annually. The project received NOK 18.9 million in support from Enova and was completed in the first quarter of 2018.

Borregaard's bioboiler for liquefied fuels converts residues from production into steam. Waste oil was previously used as a supplementary fuel, which resulted in emissions of NOx and CO₂. In 2018, Borregaard rebuilt the bioboiler and waste oil was replaced by LNG, a considerably more

eco-friendly source of energy. NOx cleaning, so-called Selective Non-Catalytic Reduction (SNCR) technology, will be implemented in 2019. Borregaard has two spray dryers that used propane and biogas as an energy source. In 2018, propane was replaced by LNG and the supply of biogas from Borregaard's water purification plant increased. The investment cost NOK 78 million and will receive NOK 25.9 million from Norwegian industry's NOx Fund.

In 2018, greenhouse gas emissions (scope 1 and scope 2) increased by 9% as more LNG than electricity was used for peak-load energy at the plant in Sarpsborg compared with previous years.

Overall, total energy consumption in Borregaard was reduced by 17% from 1,612 GWh in 2017 to 1,595 GWh in 2018. This was due to the effect of the energy efficiency programmes at the production site in Sarpsborg. The specific heat energy use at Borregaard in Sarpsborg fell 2%, in line with to the Group's target in 2018.

Borregaard supplies surplus heat from low-temperature water to the district heating system in the municipality of Sarpsborg. In 2018, Borregaard supplied 10.3 GWh (9.7 GWh).

Energy and climate results are shown in the table on page 39.

Initiatives in 2019

The science based targets for long-term GHG emission reductions will likely be approved within the first half of 2019. Borregaard will establish specific action plans based on climate scenario analyses in order to achieve the target for 2030.

A new spray dryer for lignin is under construction at Borregaard's plant in Sarpsborg. Thus, in 2019, more lignin will be dried at the plant in Sarpsborg, which will result in an increase in direct greenhouse gas emissions locally. However, the emissions associated with transport and drying elsewhere in the world will be cut, hence the net effect will result in reduced GHG emissions.

Borregaard is planning to carry out further rebuilding of the bioboiler so the proportion of renewable fuels can be increased. This project will potentially result in the capture of 33 GWh of bioenergy, which is equivalent to a reduction in CO₂ emissions of 1,320 tonnes.

Transport and greenhouse gas emissions

Borregaard aims to reduce the environmental impact from transport of raw materials and finished goods. Infrastructure

¹² Norwegian government agency that promotes eco-friendly changes in relation to energy use, renewable energy production and new energy and climate technology.



and capacity limitations will be overcome by a focus on non-traditional solutions. Production units for lignin on three continents reduce the need to transport both raw materials and finished products over long distances.

In 2018, Borregaard's operations in Sarpsborg transported 50% of its products by sea, 35% by road and 15% by rail.

Borregaard has commenced a study looking at options for future zero-emission solutions for transport between Borregaard in Sarpsborg and the Port of Borg in Fredrikstad. Following the study, Borregaard has set up an internal, interdisciplinary group tasked with surveying and assessing all aspects of, and opportunities for, implementing environmentally friendly transport solutions in Borregaard in the coming years. Based on this, the Group will suggest measures and targets for sustainable transport and report its progress to Borregaard's Sustainability Board.

Borregaard has committed to assuming its share of the effort needed for a green shift within heavy goods transport by signing the environmental organisation ZERO's declaration: "A green shift for renewable heavy goods transport". Borregaard's contracts with transport service providers require eco-friendly transport that uses engines that, as a minimum, satisfy the Euro 5 emission standard. In 2018, 100% of the Borregaard's inbound transport of logs and wood chips was transported by vehicles that satisfy the Euro 5 standard or higher. In 2018, this requirement was introduced for all inbound and outbound road transport from Borregaard in Sarpsborg.

Marine transport and combined transport solutions are integral parts of Borregaard's eco-friendly logistics solutions. Around 540,000 tonnes of Borregaard's transports are already on marine solutions, and efforts to increase use of the most environmental friendly alternatives will continue,

for instance by replacing road transport by multi-modal and seaborne transport options.

Rail transport has generally played a steadily smaller part in the design of the European transport network in recent decades. However, rail is important for Borregaard's transport of wood for its operations in Sarpsborg. In 2018, 190,000 tonnes (22%) of wood were transported by rail. The goal is to transport 23.5% by rail in 2019, which is equivalent to cutting greenhouse gas emissions by 1,700 tonnes.

Borregaard has increased its fleet of electric vehicles for local transport and has installed a number of EV charging stations at the company's site in Sarpsborg. In 2018, Borregaard installed sixteen EV charging stations to reduce CO₂ emissions associated with the employees' vehicle use.

ENVIRONMENT

Environmental risks and opportunities

Borregaard's bio-based products have a documented favourable environmental footprint in relation to oil-based or non-renewable alternatives. This position provides the company with opportunities in markets that value sustainability. Borregaard prioritises innovations and activities that can improve the products' environmental impact, such as water and waste management and energy efficiency. These processes are supported by certified eco-management systems. The highest-risk production units are certified by ISO 14001 Environmental Management (see the overview of certifications on page 46). Emissions from the various production units are also regulated by the authorities.

The highest environmental risk is associated with the main production facility in Sarpsborg. Emissions of organic matter to water (chemical oxygen demand (COD) or biological oxygen demand (BOD)) affect the aquatic environment in the river Glomma. Emissions of sulphur dioxide (SO₂) to air affect local air quality. Borregaard has established action plans to cut these emissions, and substantial reductions in emissions have been achieved over time. Organic matter has been cut by around 40% and SO₂ has been cut by almost 90% in the past eight years.

Water management and emissions to water

Borregaard has a sustainable water management system. Most of the water consumption and emissions are linked to Borregaard's operations in Sarpsborg. The plant is self-sufficient and has access to water from the river Glomma via its own water treatment facility. Water is important in Borregaard's production processes and is used for cooling, steam production and hot water production, as well as washing and transporting biomass in the production

processes. However, almost all of the water used is returned to the river Glomma. Opportunities for reducing water consumption are assessed in connection with investment projects. This is also motivated by the potential gains associated with energy savings and more efficient water treatment. A large proportion of the process water is treated to keep emission levels of halogenated organic compounds (AOX) and COD in line with Borregaard's discharge permits. The company's wastewater treatment facility reduces BOD by 98%.

The EU's BREF standards (best available technology (BAT)) apply to the Sarpsborg production plant and include limits on water and air emissions. Borregaard has submitted an assessment of the environmental technology at the site in Sarpsborg to the Norwegian Environment Agency.

This was done in compliance with the recently updated BREF standards for the industry. The assessment provided the basis for the authorities' revision of Borregaard's discharge permits. The discharge permits will apply from the second quarter of 2019 and contain stricter emission limits for a number of environmental parameters. The current discharge permit for COD is for 69 tonnes per 24-hour period. Emissions will be reduced to 59 tonnes per 24-hour period (on average over the year) in 2019 in order to comply with BAT levels for emissions to water and Borregaard's new discharge permit.

Borregaard and the Norwegian Institute for Water Research (NIVA) monitor the river Glomma in accordance with the requirements and standards in the EU Water Framework Directive (WFD). This monitoring shows that emissions of easily degradable organic matter (BOD) from Borregaard has caused a proliferation of bacteria covering riverbed sediments close to the plant. This causes poor oxygen conditions, which has implications for the growth conditions

for the river Glomma's wild salmon stock. As a result, its ecological status varies between poor and very poor. NIVA's measurements of chemical status in accordance with the WFD standards show a good status.

Borregaard's emissions of organic matter has been reduced by 40% since 2010. New analyses show that the conditions in the river Glomma downstream Borregaard has improved.

In partnership with two energy companies, Borregaard constructed and financed a salmon cultivation facility on its premises in 2012, due to low natural reproduction of salmon in the river. Borregaard has paid most of the operating costs associated with the facility since 2017. Surveys conducted by NIVA (Norwegian Institute for Water Research) in 2018 shows that only 5% of the salmon in the river originated from the cultivation facility at Borregaard, which indicates that the natural reproduction of salmon in the river is high compared to 2012. In 2016, NIVA suggested continued operations as the natural reproduction still requires some assistance from the cultivation plant to make a sustainable salmon stock.

The long-term goal of the WFD regulation is to achieve a good ecological status in the river Glomma in 2027. Borregaard has identified both short-term and long-term goals for cuts in COD emissions. The first goal is to comply with the new permit for water which applies from 2019. The next step involves R&D activities in the field of sustainable water treatment solutions as well as technological improvements that will have a positive effect on the emissions of organic matter to water.

The water volumes used at Borregaard's facilities for lignin production outside Norway are relatively low, about 1% of the company's total water consumption. The water is sourced from public waterworks or adjoining industrial areas. Borregaard's lignin plant in Florida uses process water from a ground water source, the Floridan aquifer system, which is one of the world's most productive aquifers.

Results 2018

The Borregaard Group did not exceed any of its permits for emissions to water in 2018. The figures in the table on page 39 only show emissions from the plant in Sarpsborg, since the Group's other activities have no significant emissions to water.

Borregaard in Sarpsborg has reduced emissions of COD from 66 to 61 tonnes per 24-hour period. In 2018, emissions of lead, phosphorus and zinc were substantially reduced and were 80%, 20% and 50% lower, respectively.



Initiatives for 2019

2019 will be the first year a new discharge permit from the Norwegian Environment Agency applies to Borregaard's plant in Sarpsborg. The company has drawn up a plan for the various measures that must be implemented to achieve the new requirements in the permit. The plan is intended to ensure compliance with the new discharge permit, which is expected to become effective from the third quarter of 2019.

Emissions to air

Borregaard's emissions to air of SO₂, NOx and dust particles affect local air conditions and derive from energy production, drying processes and the use of SO₂ in production processes (Sarpsborg). SO₂ emissions from production processes derive from the cooking acid used to separate lignin from cellulose. These emissions are generally cleaned in scrubbers, but also result in some diffuse emissions.

The authorities have set limits for SO₂ concentrations in the air. The municipality of Sarpsborg measures local air quality with respect to SO₂ content. The measurements show a general reduction in concentrations of SO₂, and the air in Sarpsborg remains within current limits more than 98% of the time. Borregaard's programme for reducing SO₂ emissions from chimneys and scrubbers has reduced emissions by nearly 90% in the last eight years. Borregaard and the municipality of Sarpsborg maintain an ongoing dialogue regarding the implementation of corrective and preventive measures with respect to exceeding local air quality regulations. The target is zero instances of exceeding local air quality limits.

Burning fuels for heat energy produces NOx emissions. Switching from using heavy oil to more eco-friendly alternatives has reduced these emissions by around 50% in the last ten years. Spray drying lignin products results in some emissions of NOx (from the fuel) and dust particles (lignin).

Results 2018

NOx emissions from Borregaard increased by 14% due to slightly higher emissions in the beginning of 2018 from the operations in Sarpsborg and from the start-up of the lignin plant in Florida. In October, the NOx emissions were reduced due to the transition from waste oil to LNG in the bioboiler at Borregaard in Sarpsborg.

In 2018, fifteen (six) incidents were registered where the hourly limits were exceeded and two (zero) incidents where the limits for a 24-hour period were exceeded for SO₂ levels in the air around Borregaard's plant in Sarpsborg. The increase was due to two individual incidents in the process control system of SO₂ gas in connection with stoppages in the plant. Corrective measures have been implemented.

In 2018, the total emissions of SO₂ was reduced by about 20% due to measures at the plant in Sarpsborg. The increase in total dust emissions of 4,3% was due to the increased production of lignin in powder form in connection with the new lignin facility in Florida and from increased production of powder at the operation in Sarpsborg.

Initiatives for 2019

In 2019, Borregaard will invest in greater scrubber capacity in the bioethanol plant to reduce diffuse emissions of SO₂.

A new lignin spray dryer with modern cleaning technology will be completed at the plant in Sarpsborg in the third quarter of 2019. The spray dryer will double lignin drying capacity. Depending on how much of this capacity is utilised, this will result in an increase in dust emissions, although they will remain within the applicable requirements for the air quality criteria for dust.

NOx cleaning with SNCR technology will be implemented on Borregaard's bioboiler in Sarpsborg in the first half of 2019. This is expected to further reduce NOx emissions from energy production by 24% in 2019.

Waste management and recovery

Borregaard's waste management system covered by the ISO 14001 certification includes source separation. 99% of the waste from operations in Sarpsborg was source separated and processed by certified waste treatment providers in 2018. The plant has waste plans, both for the industrial facilities and the company's own harbour. Total waste amounted to 22,360 tonnes (18,360 tonnes) in 2018, while the amount of hazardous waste was 4,903 tonnes (3,316 tonnes). The energy and material recovery rate is high and was 70% in 2018. 80% of the hazardous waste is fly ash from the waste incineration plant. The main reason for increase in the hazardous waste is due to operational issues in this plant.

Soil Pollution

Use of the Opsund landfill, a waste disposal site on Borregaard's premises in Sarpsborg, was discontinued in 2009. In 2015, a plan for permanent closure of the landfill by the end of 2019 was approved by the Norwegian Environment Agency. The closure project is progressing and the main part will be finished by the planned end date. The vegetation layer on the top of the landfill will be postponed until the spring of 2020.

From 1949 to 1997, Borregaard used mercury-based technology for chlor-alkali production at the site in Sarpsborg. This process led to pollution of the soil in the area surrounding the plant. In 1994, a ground water barrier was built, and a water monitoring programme was established. In 2015, an increased level of mercury was

detected. Borregaard has undertaken measures to improve the ground water barriers in order to prevent mercury leakage from the discontinued technology. During 2016, the Norwegian Environment Agency approved planned actions and Borregaard made a provision in the financial statements according to estimated costs. The concentration of mercury in ground water wells and in the sewerage systems has decreased due to these actions. Borregaard reports progress to the Norwegian Environment Agency every quarter. In 2019, areas downstream from the groundwater barriers will be cleaned to prevent the spreading of mercury.

The Industry Emission Directive (IED) obliges Borregaard's plant in Sarpsborg to submit baseline report for land and groundwater. Borregaard has conducted a number of surveys in the last 30 years. The company has a good overview of the plant's activity history and monitors contaminated areas. The industrial site is divided into five areas. The survey of the first area will be completed in 2019. The baseline report must be submitted to the Norwegian Environment Agency for approval.

PUBLIC AND PROCESS SAFETY

Process safety at Borregaard's facilities has increased over time due to the systematic monitoring of risk and the implementation of measures aimed at mitigating risk. Borregaard has focused on communication to create trust among people who live and work near the production facilities.

Sometimes risks can be eliminated through technical, organisational or business measures. Borregaard's elimination of chlorine risk by converting the elemental chlorine to hydrochloric acid, implemented in 2012, is one example of this.

Borregaard continuously assesses safety in relation to the wider community outside the company. This applies in particular to Borregaard's large plant in Sarpsborg, which is subject to the Norwegian Major Accident Regulations¹³. These are based on an EU Directive (Council Directive 96/82/EC ("Seveso III")) intended to prevent accidents that could potentially cause large-scale harm.

Borregaard, in cooperation with independent expertise, has carried out extensive risk assessments in line with guidelines from the Norwegian Directorate for Civil Protection (DSB). Based on this work, DSB has proposed consideration zones for the area surrounding Borregaard's operations in Sarpsborg. Borregaard, therefore, expects the long-term development of the area surrounding the plant to be harmonised in line with the expectations of the Seveso III.

In 2017, Borregaard updated its safety report based on the revision of Seveso III. The report provided an updated picture of the overall risk of major accidents at the plant in Sarpsborg and provides a basis for prioritising risk mitigation measures. Borregaard has also updated its strategy for preventing major accidents in line with Seveso III (Section 7, Annex 3) and is currently implementing an updated process safety management system.

SO₂ is an important input chemical in production processes in the biorefinery and cannot be replaced by other chemicals. Risk analyses show that a large discharge of sulphur dioxide could have serious consequences for third parties, especially from the storage of liquid sulphur dioxide. Borregaard has decided to introduce new technology that will substantially reduce the amount of SO₂.

Borregaard has several lignin spray dryers in its facilities. The risk of a dust explosion has been surveyed and risk mitigation measures have been implemented.

The Norwegian Tank Regulations (Norwegian Pollution Regulations, Chapter 18) were introduced in Norway in 2014 with the intention of surveying and reducing the environmental risks associated with tank storage. All storage tanks had to be equipped with physical barriers for the collection of chemicals in case of accidents by 1 January 2019. Borregaard has assessed environmental risk for around 500 tanks with respect to the requirements of the Regulations. The projects that have been implemented include everything from upgrading existing tank reservoirs to building brand new tank storage facilities for some chemicals.



¹³ The Council Directive 96/82/EC

Results 2018

Borregaard reported one (three) fire in 2018. The fire resulted in minimal damage. The risk of fire will be further reduced through the implementation of a four-year plan (2017-2020) at the plant in Sarpsborg, which includes renewing fire alarm systems and improving standards in accordance with the Norwegian Fire Regulations.

The risk of incidents related to the storage and use of chemicals at the plant in Sarpsborg was reduced in 2018. Waste oil, as a supplemental fuel for the bioboiler, and propane, as a fuel for the spray dryers, have been replaced by LNG. Tank storage has been upgraded in accordance with the Tank Regulations' requirements for products such as ethanol, sulphuric acid and chlorine dioxide. Among other things, this has further improved process safety in the facilities.

Borregaard in Sarpsborg distributed updated information leaflets about plant safety to its neighbours in 2018.

Initiatives for 2019

Borregaard will continue to implement an updated process safety management system. The company will prioritise the areas with the highest potential inherent risk in terms both of EHS and profitability. Process safety related to SO₂ will be prioritised. Borregaard has decided to introduce new technology that will substantially reduce the amount of sulphur dioxide (SO₂) stored at the plant in Sarpsborg in order to further improve safety. This technology will be implemented in 2020.

CHEMICALS AND PRODUCT SAFETY

Borregaard's main products are lignin and speciality cellulose, representing about 80% of the revenues. Both are exempted from registration under the REACH regulation, which means that they are associated with a low risk in use. About 20% of the revenues are from products that are subject to classification according to the Globally Harmonized System of Classification and Labelling of Chemicals (GHS). Substances which are subject to registration under the REACH regulation undergo a thorough hazard and risk assessment according to regulatory requirements. An electronic chemical health, environmental and safety system is used for the identification and monitoring of substances of concern (REACH Candidate List, REACH Authorisation List). Borregaard does not produce substances listed on these lists. The classification (according to the CLP Regulation) of all products placed on the market are being evaluated based on intrinsic properties of the ingredients and/or toxicological data on the product. The Safety Data Sheets are regularly revised and updated. The risk for hazardous conditions and unexpected exposure due to use of chemicals is considered as low.

International and national chemicals legislation require tests and registrations with the authorities before products can be safely and legally placed on the market. Animal testing might in some exceptional cases hence be necessary in order to ensure compliance with relevant directives. A procedure for approval and performance of animal testing is in place.

Borregaard has procedures to ensure that all new chemicals subject to labelling due to potential risk are assessed for possible substitution by a dedicated committee, before they are introduced in the production processes. The existing portfolio of chemicals is subject to periodical assessment for possible substitution. In the planning and development process for new products, substances used as input factors are evaluated with a view to risk and toxicity before they are approved.

SAFE AND HEALTHY WORKING ENVIRONMENT

A safe and healthy working environment is a fundamental right for all employees, and essential for ensuring stable and efficient operations.

Borregaard's ambition is to promote a safety culture that results in the avoidance of injuries to employees or third parties, as well as material damage resulting from its activities. This will be achieved through good risk management, systematic efforts to prevent injuries and occupational diseases (both physical and mental), and the involvement of all employees. Safety is an integral component of all aspects of Borregaard's operations due to an proactive approach that involves safe job analyses, safety barriers and the principle of "safety first".

Some of Borregaard's units are certified pursuant to OHSAS 18001. Norwegian EHS legislation (Internal Control Regulations) includes a requirement for a management system that systematically monitors safety, identifies hazards and involves employees. Borregaard has also added its own requirements and guidelines to ensure high EHS standards for its operations.

Borregaard's overall target is zero lost time injuries (LTI). Some of Borregaard's production units have maintained a zero LTI level for many years.

The management has long prioritised a focus on safety in the workplace to eliminate injuries. Borregaard has a worldwide safety programme called Zero Harm. Important measures for eliminating injuries include basic EHS training to strengthen the safety culture, focusing on personal responsibility for one's own safety, clear safety management, reviews of rules for, and the practical use of, protective equipment, and requirements for order and tidiness in the workplace.

The Group has a systematic procedure for investigating the root causes of incidents, before corrective and preventive measures are implemented. This provides valuable input for the risk assessment process and documents the lessons learned.

Historically, exposure to chemicals has been the main category of injuries, but systematic efforts over many years to reduce chemical exposure through training and safety management are now showing results.

Borregaard in Sarpsborg holds a weekly safety meeting in which the management and employee representatives address various safety issues. One safety topic to which additional attention will be paid is selected each month. Topics include the risk associated with sharp objects, walking/tripping hazards in connection with slippery conditions or the risk of chemical exposure. This systematic procedure means that the entire organisation gets involved and is critical for improving the individual's understanding of risk.

Borregaard strives to ensure that working conditions are conducive to the good health of its employees. The company strives to ensure a good, inclusive working environment with meaningful tasks, support and feedback from colleagues and managers. The health of the employees is regularly monitored through medical examinations and working environment surveys. The working environment is generally considered to be good, and efforts are continually being made to improve it through various measures.

Borregaard particularly focuses on sick leave and has an ambitious goal of further reducing sick leave. This is why both preventive activities and initiatives have been introduced to reduce any stressful aspects in the working conditions. There is an emphasis on closely following up those on sick leave and on adapting tasks for individual employees. Temporary adaptations in the working environment, with suitable duties, or shorter working hours for a limited time, are examples of measures for employees with different needs. Training, health and lifestyle counselling, vaccinations and stress management are other examples.

The potential for exposure to substances that are harmful to health forms part of the risk assessment process. Measures are implemented to reduce or eliminate substances that may have a negative impact on health. The precautionary principle is fundamental and personal protective equipment is compulsory when a risk of exposure exists. In 2018, the Norwegian authorities introduced a new threshold value

for SO₂ in the workplace atmosphere. Complying with the requirements is demanding and Borregaard has, therefore, reinforced its action plan for reducing concentrations of SO₂ in the working environment.

Results 2018

There were no fatal or high consequence injuries in Borregaard in 2018 (zero). The number of absences resulting from injuries increased from 2017 to 2018. The increase was not linked to the actual operation of the facilities. There were seven absences due to injuries in the Group (two). An employee at the plant in Sarpsborg slipped on ice and broke a leg (absent for 20 days), another one crushed a finger (absent for seven days) and one injured their back when performing a heavy lift (absent for two days). There were two absences due to injuries at the sales office in Germany: one employee injured their thumb in a traffic accident (absent for ten days) while another slipped on a wet floor in a hotel and hurt their back (absent for 29 days). At the facility in Florida, an employee was splashed by hot liquid (absent for one day) and another at the Rothschild facility tore a tendon in their shoulder when tightening a bolt (absent for 19 days).

Proactive safety indicators show that the Group's safety culture is improving.

The sick leave rate¹⁴ in Borregaard was reduced in 2018 and ended at 3.5% (3.8%).

Initiatives for 2019

In order to achieve the target of zero absences due to injuries, Borregaard will continue the work to ensure it has a motivated and proactive organisation in relation to safety, with a high degree of awareness of their responsibility to mitigate risk. The work on reporting, analysing underlying causes, implementing measures in connection with near-accidents and hazardous situations, as well as frequent inspections at the facilities, will continue in 2019.

Borregaard will continue its monthly safety topics programme with greater focus in 2019 in order to build a strong safety culture and increase the understanding of risk. The training for external workers who are working for Borregaard will be improved in 2019.

Borregaard will continue to focus on appropriate health promotion measures and preventive working environment measures in close cooperation with employee representatives in 2019. The long-term target for sick leave rate is 3.0%.

¹⁴ Total hours of sick leave/possible work hours.

KEY TARGETS 2018	RESULTS	COMMENTS
CLIMATE		
Establish science-based target for long-term CO ₂ emissions	Achieved	Target approval pending.
Reduce CO ₂ emissions to 100 kg of CO ₂ /MWh of energy consumption at Borregaard Sarpsborg	Not achieved	Not achieved due to the use of more LNG and less electricity in steam production.
ENVIRONMENT		
NOx reduction in Sarpsborg 40%	Not achieved	DeNox not commissioned due to technical difficulties.
COD emissions below 64 tonnes per 24-hour period	Achieved	61 tonnes
No instances of SO ₂ exceeding local air quality limits	Not achieved	15 1-hour period and two 24-hour period exceedings
Reduce specific heat energy consumption pr tonnes of cellulose by 2% (Borregaard Sarpsborg)	Achieved	2%
HEALTH AND SAFETY		
Sick leave rate below 3.8%	Achieved	3.5
No absences resulting from injuries (LTI)	Not achieved	3.5
TRANSPORT		
Increase wood transport via rail to 23.5%	Not achieved	21%
Ship 50,000 tonnes to Europe via the sea in 2018	Not achieved	40,000 tonnes
All road transport using, as a minimum, Euro 5 engines	Achieved	100%
KEY TARGETS 2019		
CLIMATE		
Establish specific action plans in order to achieve the science based target for 2030 Group		
Reduce CO ₂ emissions to 100 kg CO ₂ /MWh of heat energy consumed Sarpsborg by 2025		
ENVIRONMENT		
NOx reduction Sarpsborg 24% run rate from base year 2018 to end 2019		
COD emissions below 59 mt/day Sarpsborg		
Zero exceedances of local air quality SO ₂ Sarpsborg, average emissions pr hour		
HEALTH AND SAFETY		
Sick leave below 3.5% Group		
LTI rate of 0 Group		
TRANSPORT		
Increase rail transportation of logs to 23.5% Sarpsborg		
Surpass 40,000 mt by sea to Europe in 2018 Sarpsborg		
85% of road transport by minimum Euro 6 engines Sarpsborg		

GRI ref*		UNIT	2018	2017	2016
302	ENERGY				
302-1	Total energy consumption	GWh	1,593	1,612	1,618
302-1	Renewable energy part of total energy consumption	GWh	1,007	1,083	n/a
302-1	Heat energy part of total energy consumption	GWh	1,069	1,093	1,093
302-1	Electricity part of total energy consumption	GWh	524	519	525
302-4	Heat energy consumption at Borregaard Sarpsborg per tonne of cellulose	GWh/tonne cellulose	21.6	21.9	22.7
303	WATER				
303-1	Surface water usage Borregaard Sarpsborg (river Glomma)	mill m ³	24.5	23.9	23.2
303-1	Ground water usage Borregaard Sarpsborg	mill m ³	0	0	0
303-1	Surface water usage Borregaard other facilities	mill m ³	0.09	n/a	n/a
303-1	Ground water usage Borregaard other facilities (Florida)	mill m ³	0.15	n/a	n/a
305	EMISSIONS TO AIR				
305-1	Direct (Scope1) GHG emissions	mt CO ₂ e	139,856	128,414	134,176
305-1	Direct biogenic GHG emissions	mt CO ₂ e	129,303	108,258	108,152
	Direct GHG emissions within EU-ETS system	mt CO ₂ e	126,284	114,259	121,639
305-2	Energy indirect (scope 2) GHG emissions	mt CO ₂ e	58,484	58,213	60,785
305-3	Other indirect (scope 3) GHG emissions	mt CO ₂ e	301,083	301,083	n/a
305-4	Direct and indirect GHG emission (scope 1 og scope 2) pr revenue	mtCO ₂ e/mNOK	41	40	43
305-4	Direct and indirect GHG emission (scope 1 og scope 2) pr total energi consumption	mtCO ₂ e/mNOK	115	106	112
305-5	Reduction of GHG emissions from basis year 2009 (total scope 1 og scope2)	%	34	37	35
305-7	Emissions of SO ₂	mt	69	84	80
305-7	Emissions of NOx	mt	197	167	189
305-7	Emissions of dust particles	mt	70	67	50
306	EFFLUENTS AND WASTE (BORREGAARD SARPSBORG)				
306-1	Emissions of COD to water (organic material)	t/day	61	66	63
306-1	Emissions of AOX to water(halogenic oranic material)	t/day	0.27	0.30	0.28
306-1	Emissions of suspende solids (fibers) to water	t/day	4.0	3.3	4.0
306-1	Emissions of phosphor to water	kg/day	36	37	35
306-1	Emissions of nitrogen to water	kg/day	369	436	409
306-2	Ordinary waste	t	17,457	15,044	16,756
306-2	Hazardous waste	t	4,903	3,316	3,105
306-2	Total amount of waste	t	22,360	18,360	19,861
306-2	Degree of waste sorting	%	99	98	97
306-2	Energy and material recovery rate of waste	%	70	71	61
307	ENVIRONMENTAL COMPLIANCE				
307-1	Non-compliance with environmental laws and regulations	Number	0	0	0
403	OCCUPATIONAL HEALTH AND SAFETY				
403-2	Number of fatal accidents	Number	0	0	0
403-2	LTI; Lost time injuries per millon worked hours	Number	3.5	1.1	1.6
403-2	TRI; Total recordable injuries per million worked hours	Number	8.6	8	7.7
403-2	Number of injuries for independent contractors	Number	12	6	5
403-2	Lost days due to work related injuries	Number	87	46	66
403-2	Sickleave	%	3.5	3.8	4.0

* GRI = Global Reporting Initiative.

C

EMPLOYEE AND COMPETENCE DEVELOPMENT



The total number of full-time equivalents (FTEs) in Borregaard was 1,097 at the end of 2018 (1,065). All of the Group's units experience generally low turnover. The turnover rate¹⁵ in Sarpsborg was 2.8% in 2018.

CORPORATE CULTURE

Borregaard has developed a strong corporate culture over many years and through changing times, which helps create a common mindset, core values and an understanding of the business across functions, business areas and geographical boundaries. A sound corporate culture that supports Borregaard's objectives and strategies provides a vital basis for the development of the company and its employees.

Borregaard's culture and values, "The Borregaard Way", are an integral part of the various introduction and development programmes. The corporate culture and core values also include standards and objectives for sound business ethics. Borregaard has a set of guideline documents for corporate responsibility and ethical guidelines, as well as manuals and more specific guidelines for different areas such as anti-corruption, competition legislation, responsible sourcing, environment, health and safety, and human rights.

Borregaard's guidelines for corporate responsibility are integrated into the Group's introduction and managerial training programmes. New employees also take part in continuous improvement and innovation courses.

DEVELOPING CORE COMPETENCE

Borregaard's core competence lies within sales and marketing, R&D and production. Today, the Group's competence within these areas, and the interaction between them, is Borregaard's most important competitive advantage. Therefore, it is crucial that the Group manages to retain and strengthen this unique base of competence, both through recruitment and employee development. The Group's introduction programme provides new employees with an introduction into Borregaard's strategy, corporate governance, culture and values. New employees also take part in continuous improvement and innovation courses. 19 new employees from various parts of the Group took part in the main introduction programme in 2018.

Borregaard has set up internal training programmes within its areas of core competence. 14% of the company's employees work within sales, marketing and customer service. It is important to know the various customers' needs and the value of Borregaard's products and solutions. With a view to maintaining this knowledge, Borregaard operates,

both an "Application Academy" and a "Sales Academy".

Since Borregaard's production processes are very complex and involve a high degree of integration, great importance is attached to knowledge and competence in the areas of production and biorefining. Borregaard arranges extensive training programmes for its operators and apprentices (Norway and Germany). The Group also has a "Knowledge Plant" for training. In 2017, Borregaard established a "Production Academy" based on the LEAN method that focuses on continuous improvement in all parts of the Group. The aim is to offer this training to all of Borregaard's employees in order to strengthen the company's corporate culture within continuous improvement. In 2018, 92 employees participated in the "Production Academy".

As part of Borregaard's commitment to competence building, the company implemented a new and comprehensive e-learning system in 2018.

Borregaard Innovation Conference, was held in the spring of 2018. This is a forum that is intended to contribute to inspiration and the exchange of ideas across internal R&D groups, departments and business areas. The conference lasts for two days and is arranged every two years. The next conference will be arranged in the spring of 2020.

The Group invests significant resources in management training. Borregaard's mission is to recruit most of its managers from within the company with the aid of career development plans and by having replacement candidates and programmes that combine management training and corporate culture development. In order to help increase the number of female managers and strengthen the company's international competence, women and managers from operations outside Norway are overrepresented in these programmes.

Borregaard underlines the importance of creating an internal job market and favours a high degree of job rotation and internal recruitment to fill vacancies. There were several examples of internal recruitment between divisions and business areas in 2018. This is an important element of strengthening competence, innovation and continuous improvement in the company, and also creates career opportunities for employees.

Two trainees were recruited to the trainee programme in 2018. The trainees work within R&D, marketing, sustainability and finance.

¹⁵ The number of employees that left the company as a percentage of the total number of employees by year-end. Employees retired are not included in the numbers.

RESTRUCTURING AND ORGANISATIONAL DEVELOPMENT

Borregaard strives specifically to maintain its global competitiveness through world-class innovation and productivity. Comprehensive training programmes, together with the introduction of new technologies and organisational development, are key elements of the company's continuous improvement work.

The Borregaard plant in Sarpsborg is also assuming greater responsibility for training skilled workers through targeted contact with and providing lessons in schools, as well as by increasing the number of apprentices it takes on. The company has a training and presentation centre, the "Knowledge Plant" available for this purpose.

Based on the current age composition of the workforce, Borregaard in Sarpsborg will experience a growing need for qualified employees in coming years. In order to meet these challenges, Borregaard has recruitment activities and school programmes to encourage interest in an industrial career and relevant qualifications.

Borregaard in Sarpsborg took on nineteen new apprentices in 2018. There were a total of 42 apprentices at the operations in Sarpsborg, as well as three apprentices at Borregaard's operations in Germany.

DIVERSITY

Borregaard wishes to enhance diversity among its employees and is committed to avoiding discrimination based on gender, ethnicity, religion and age. The Group has specific guidelines for this area. Borregaard has, among other things, initiatives aimed at promoting the recruitment of female managers and employees.

The Group deliberately have a high proportion of women in management and technical programmes, as well as in the company's recruitment base.

In 2018, 25% (25%) of Borregaard's employees were women. 32% of all new employees were women in 2018. The lowest proportion of women is in production, while

the proportion of women in R&D, customer service, HR and finance is above 50%. Three of the members of the company's board of directors are women (43%). Overall, 25% (29%) of managers in Borregaard are women, while the executive management team includes one woman (11%).

Borregaard has gender-neutral guidelines and pay systems that contribute to equal pay for equal work. Borregaard has the same working hours for men and women. The degree of part-time employment is low.

In a survey conducted in 2018 by SHE community/EY, Borregaard was rated number eight out of fifty companies for gender equality reporting and performance at Oslo Stock Exchange.

Borregaard is a global organisation with people from 25 different nationalities. The company believes employing people with diverse ethnic and cultural backgrounds is a strength and uses diversity as a resource within the organisation. The diversity of nationalities also affects how the Group's training programmes are put together and staffed.

WHISTLEBLOWING PROCEDURES

Borregaard wants transparency and a strong corporate culture to help ensure that difficult or undesirable situations are discussed and resolved. There may be situations where employees see or experience something that conflicts with the company's guidelines or expectations.

Ideally, the company would like these issues to be dealt with where they occur. However, situations may arise where reports from employees about adverse situations do not reach the right person or where they feel unfairly treated and cannot find a solution to their problems. In such circumstances, there are established procedures for and guidelines on whistleblowing, both to various specific functions in the organisation or via a dedicated telephone number or email address. These guidelines are translated into several languages and distributed to the company's units worldwide.

KEY TARGETS 2018	RESULTS	COMMENTS
Implement a senior executive programme	Achieved	One class with 11 participants completed
Implement the "Production Academy" at at least two units	Achieved	92 participants
Increase the proportion of female employees to 30% and female managers to 35% by 2022	In progress	32% of all new employees and 25% of all managers were women in 2018

KEY TARGETS 2019
Conduct 4 regional Sales Academies, including sustainability training
Conduct Production Academy at minimum two production sites
Increase the proportion of female employees to 30% and female managers to 35% by 2022

D

SUPPLIERS AND BUSINESS PARTNERS



BORREGAARD'S APPROACH

Borregaard works with suppliers and business partners around the world. Some relationships are well-established and long-term. This contact and cooperation must be characterised by trust, integrity and mutual respect, and transactions and business practices must comply with the laws, regulations and internationally recognised ethical standards.

Borregaard strives to identify risks in relation to violations of labour rights, EHS conditions, environmental legislation and anti-corruption legislation by the Group's suppliers. When such violations are identified, the Group implements measures to improve the situation. In this way, Borregaard contributes to sustainable business operations, while reducing commercial risk and strengthening its long-term competitiveness.

Several guidelines have been drawn up to regulate matters and help employees cultivate good relationships and sound business practices. The guidelines cover corporate governance, anti-corruption, competition laws, and responsible purchasing.

Borregaard has conducted an assessment of the risk of corruption to ensure that relevant anti-corruption measures are in place and being complied with. No high-risk corruption factors were identified.

Training

In 2018, Borregaard provided selected employees with training in anti-corruption and competition legislation, as well as practical training within responsible sourcing.

SUPPLIERS

The Supplier Code of Conduct (SCoC) is based on the principles of the UN Global Compact. Borregaard's suppliers are required to comply with SCoC or its equivalent, irrespective of their country of origin.

New suppliers

New suppliers are subject to approval in relation to written procedures and risk assessments. This involves answering a questionnaire covering quality assurance, the environment, corporate social responsibility and responsible sourcing. Based on this risk assessment, suppliers are deemed

either qualified or not qualified. Alternatively, suppliers are subjected to a more detailed analysis. Borregaard also assesses and approves relevant products or services. Everything is documented in a change management system.

Supplier evaluation

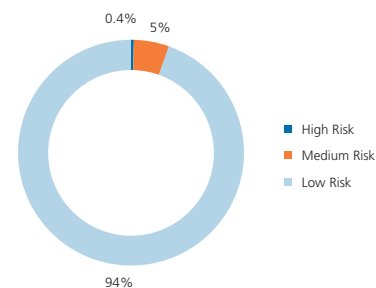
Borregaard conducts annual supplier evaluations. These evaluate registered suppliers' non-conformance and observations, any new legislation and specific areas for improvement. The evaluation is summarised in a report with an action and audit plan.

In 2018, Borregaard focused on EHS for independent contractors. Fourteen audits were planned and fourteen conducted. In 2019, the focus will be on the topic of the environment. Ten audits are planned for 2019.

Existing suppliers

On behalf of Borregaard, Sedex¹⁶ conducted an advanced assessment of the company's suppliers. Fewer than 0.5% of the company's suppliers belonged to the high-risk group, while 94% were in the low-risk group.

PRELIMINARY RISK ASSESSMENT



Borregaard has encouraged high and medium-risk suppliers to register with Sedex, complete a questionnaire and share the information with Borregaard. Relationships with three suppliers were terminated in connection with this process; nine suppliers were approved and eight are still being evaluated.

In 2019, Borregaard will implement a tool for evaluating risks among the Group's suppliers and partners.

¹⁶ Sedex is a collaborative platform for sharing responsible purchasing data in supply chains. The system is used by more than 43,000 members in over 150 countries to measure their performance in relation to labour rights, EHS and business ethics.

SUSTAINABLE RAW MATERIALS

Wood

Borregaard sources wood from forests that are managed in a proper, sustainable and eco-friendly manner. The company complies with the applicable guidelines, laws and regulations in the countries where the wood is sourced.

One million solid cubic metres of wood is purchased each year for Borregaard's biorefinery in Sarpsborg. In 2018, 79% of the wood came from Norway, 19% came from Sweden and the remaining 2% came from Germany. All the wood is harvested in accordance with the country of origin's laws on felling, silviculture and biodiversity. 92% of the wood purchased in 2018 was certified in accordance with PEFC/FSC¹⁷.

In November 2018, Borregaard became Chain of Custody (CoC) certified in accordance with the FSC and PEFC forest certification standards.

Borregaard does not purchase wood that is:

- harvested illegally
- felled in protected areas or areas that are subject to review, unless the harvesting clearly complies with national conservation regulations
- harvested in forests with a high conservation value defined by the Living Forest standard in Norway or by the High Conservation Value Resource Network (HCVRN)
- genetically modified (GMT/GMOs)

Borregaard's goal is to cut the greenhouse gas emissions associated with transporting wood by increasing payloads and transferring more goods from truck to railway, thereby utilising transport capacity more efficiently.

Lignin

Borregaard's production units outside Norway receive lignin raw materials from adjacent pulp mills. All of them purchase wood from FSC certified sources. Supplies of lignin can be affected by a number of factors, such as the profitability of suppliers of raw materials and general market conditions, regulatory considerations, loss or closure of production, as well as a number of industry-specific factors, including the supply and cost of raw materials.

Producing the lignin feedstock Borregaard uses in production requires a sulphite pulping process. Only a limited number of pulp producers use this process. Some of Borregaard's former sources of lignin feedstock have ceased

production. In 2018, Borregaard and Rayonier Advanced Materials (RYAM) built a new lignin facility adjacent to RYAM's pulp mill in Florida, USA.

OTHER BUSINESS PARTNERS

LIGNOTECH SOUTH AFRICA

LignoTech South Africa (LTSA) is a 50:50 joint venture between Borregaard and Sappi (for more information, see Note 6 to the Consolidated Financial Statements). The company employed 107 FTE as of 31 December 2018, including trainees. Borregaard is represented on the board of the company. LTSA produces lignin products based on raw material from Sappi Saiccor's pulp mill.

The company has its own Social and Ethics Committee tasked with monitoring social and economic development, corporate citizenship, environment, health and public safety, customer relations and labour and employment issues. The Committee is composed of members of the company's management team and chaired by an LTSA director. LTSA subscribes to the OECD guidelines with respect to anti-corruption measures. In addition, the company has an Audit and Risk Committee composed of LTSA directors. The Committee is tasked with monitoring assurance arrangements, integrity of reporting, risk governance and delegation of financial responsibility to management.

The company has developed a comprehensive governance compliance programme to monitor legal and other compliance activities and staff retraining on key policies, standards and procedures is scheduled for 2019.

The company again organised its annual "Safety Day", demonstrating how to care for our people and planet by building and illustrating a Safety House concept consisting of actions as foundations and values as pillars. All new employees undergo hazard awareness training and testing, and sign a safety pledge when joining the company as preparation for being absorbed into the Zero Harm systems.

The company is involved in reducing the effects of the social and financial consequences of HIV/AIDS. One important area has been to prevent discrimination based on the disease, to disseminate information about the disease and its treatment, and to carry out voluntary counselling and testing for employees. In addition, the company supports education as a priority and supports local schools and day care centers for disadvantaged children and provides donor funding to the two largest universities in Durban for disadvantaged students.

¹⁷ PEFC is an international non-profit organisation that promotes sustainable forest management. FSC is a global non-profit organisation that sets standards for responsible forest management.

LignoTech South Africa is consciously striving to ensure that the profile of its labour force reflects the country's demographics, with a particular focus on representation in management. The company is B-BBEE (Broad-Based Black Economic Empowerment) certified, with the common goal to distribute wealth across as broad a spectrum of previously disadvantaged South African society as possible. As part of the B-BBEE engagement, LignoTech South Africa has partnered with the Hope Factory initiative to support small and medium-sized enterprises and informal businesses to grow and develop. The company continued its financial support of the Hope Factory in 2018.

LignoTech South Africa paid income taxes totalling NOK 14 million in 2018.

Certifications in LignoTech South Africa:

- ISO 9001 (Quality Management)
- ISO 14001 (Environmental Management)
- GMP+ Production of Feed Additives and Premixes
- OHSAS 18001:2007 Health and Safety Management
- B-BBEE Broad-Based Black Economic Empowerment

KEY TARGETS 2018	RESULTS	COMMENTS
All new suppliers must be approved in accordance with established guidelines and procedures	Achieved	
Fourteen supplier audits	Achieved	
Implement tools for assessing and managing financial and ethical risk among suppliers/partners	Not achieved	Postponed to 2019
KEY TARGETS 2019		
All new suppliers subject to approval in accordance with established policies and procedures		
10 supplier audits		
Implement a tool for reviewing and addressing financial and compliance risk amongst suppliers/business partners		
Improved documentation of environmental and climate footprint for raw materials		

E

CONTRIBUTION TO SOCIETY



Profitable and sustainable jobs are a prerequisite for welfare and social security. This manifests itself through income and meaningful activity for individuals, as well as through financial contributions through taxes and duties that companies and their employees pay in the countries and local communities in which they operate. Those countries where Borregaard has production operations see significant ripple effects from suppliers and other activities around the plants.

As of 31 December 2018, Borregaard employed 1,097 FTEs in plants and sales offices in 16 countries. The Group has production units in Norway, the UK, Germany, Spain, the Czech Republic and the US, as well as a 50:50 joint venture in South Africa.

NOK 143 MILLION IN INCOME TAX PAYMENTS

Borregaard paid income taxes totalling NOK 143 million in 2018 (NOK 170 million). The income taxes paid in Norway amounted to NOK 129 million, while income taxes paid in the rest of Europe was NOK 3 million, NOK 7 million in the Americas, NOK 3 million in Asia and NOK 1 million in Africa.

Borregaard seeks to comply with the spirit as well as the letter of the tax law in countries where Borregaard has commercial activity. The company will not enter into arrangements which could be considered artificial or which have tax avoidance as their sole or main objective. Borregaard uses the OECD guidelines for internal pricing, which is an important factor in ensuring that profits and taxes are distributed fairly among different countries.

SHARED INTERESTS WITH LOCAL COMMUNITY

Borregaard's companies impact and interact with the local communities where they are located. The Group's plants outside Norway are relatively small, while Borregaard has been a cornerstone company in Sarpsborg for generations. Borregaard still plays an important role in the city and region as an employer, a customer of many suppliers, and a socio-economic contributor through taxes and duties from its operations.

SUPPORT FOR SOCIAL DEVELOPMENT

Borregaard has a broad contact network and many stakeholders in Sarpsborg and Østfold County. The company participates in various forums and organisations involved in urban and regional development, and has also provided venues for socially beneficial activities.

In 2018, the company contributed around NOK 4 million to support measures that benefit both the company and the region, with the overall goal of boosting the company's reputation as an employer. Borregaard's sponsorship strategy has two main pillars. One covers cultural and sports experiences and activities that help make the city and region more attractive. This is important to Borregaard in terms of creating a long-term source of recruitment. The other area supports measures intended to help young people understand and get interested in disciplines important to Borregaard and society as a whole. This is illustrated by Borregaard's support and cooperation with the Inspira Science Centre, the Young Entrepreneurship scheme and the company's own Knowledge Plant.

COLLABORATION WITH EDUCATIONAL INSTITUTIONS

Borregaard works closely with schools and educational institutions in the Sarpsborg area. The Group has established its own Knowledge Plant, which functions as both an in-house training centre and as a showroom and venue for school visits. It offers educational programmes that tie in with schools' curricula, using examples taken from the company. In 2018, 1,629 students visited the Knowledge Plant from schools taking part in an educational programme combining technical training, careers advice and a company presentation.

Borregaard also contributes to a University Educated Teacher II scheme within chemistry for upper secondary schools in Østfold County in which researchers from Borregaard have created a company-related teaching plan in chemistry. Every year, students from a number of higher education colleges and universities carry out practical tasks and projects or get internships at the company.

Borregaard has programmes and instructors for apprenticeship schemes involving cooperation with vocational schools in the region. These provide apprentices with relevant experience to supplement their theoretical training. In 2018, Borregaard had a total of 42 apprentices at the biorefinery in Sarpsborg and 3 at the plant in Germany.

AWARDS AND RECOGNITIONS

Borregaard has received several awards and honours from external bodies over the years. In 2018, Borregaard was named "Best Overall Investor Relations" by IR Magazine Awards Europe. The company was also ranked number

eight out of one hundred assessed companies in the field of sustainability communication by the Governance Group and the communication company BCW.

Borregaard conducts an annual reputation survey among the general public in Østfold County that looks at the local community's opinion of Borregaard as a place to work, environmental conditions, contribution to the community and people's general impressions of the company. The survey in 2018 produced the best reputation results ever with respect to Borregaard as a place to work. Besides a very good reputation as a sound company with good products and competitiveness, the company also has a good reputation within the areas of environmental conditions and positive contributions to the local community. The survey once again confirms the company's strong position in the local community around Borregaard's largest plant.

CERTIFICATION AND AFFILIATION

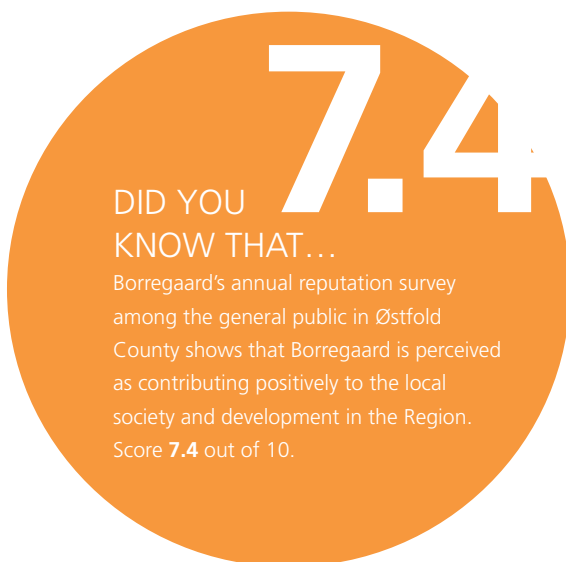
Borregaard has established links with various external schemes that contribute to tighter control, improvements and inspiring a systematic way of working. This also applies to issues and topics relating to corporate responsibility and sustainable development and operation. The company has committed to, among other things, the Responsible Care guidelines and objectives, which are the European chemical industry's environmental responsibility initiative.

Borregaard also subscribes to the services of EcoVadis¹⁸ to enable its customers to monitor the Group's sustainability performance.

Borregaard is certified in accordance with several standards:

- ISO 9001 (Quality Management) (Norway, the US, Germany, Spain, the UK and Austria)
- ISO 14001 (Environmental Management) (Norway, Germany, Spain and Austria)
- ISO 50001 (Energy Management) (Norway and Germany)
- FSSC 22000 (Food Safety)
- GMP+ (Feed Additives) (Norway, Germany and Spain)
- SMETA (Ethical Trade)
- OHSAS 18001:2007 (Health and Safety) (Austria)
- Kosher certified (vanillin products, Norway)
- Halal certified (vanillin products, Norway)
- PEFC Chain of Custody (wood sourcing within speciality cellulose) (Norway)
- FSC Chain of Custody (wood sourcing within speciality cellulose) (Norway)

Borregaard is a member of the UN's Global Compact and through this supports universal principles on human rights, labour, the environment and anti-corruption. Borregaard also reports progress in line with the Global Compact. Borregaard intends to report in accordance with GRI from 2020.



¹⁸ www.ecovadis.com

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

Borregaard complies with the UN Global Compact's ten principles of doing business in the areas of human rights, labour, environment and anti-corruption. The ten principles are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.



Per A. Sørli,
President and CEO, Borregaard



1 NO POVERTY



END POVERTY IN ALL ITS FORMS EVERYWHERE

- Borregaard and the rest of the industry generate high added value creation. Through its purchases of goods and services and tax contributions, the industry creates positive ripple effects in the form of direct and indirect jobs
- Substantial tax payments. In 2018, the Borregaard Group's tax payments amounted to NOK 143 million
- Jobs provide a route out of poverty. Borregaard employs 1,097 FTEs in 16 countries

2 ZERO HUNGER



END HUNGER, ACHIEVE FOOD SECURITY AND IMPROVED NUTRITION AND PROMOTE SUSTAINABLE AGRICULTURE

- Effective and sustainable feed products
- Products for improved plant growth stimulants for food plants
- Improved and sustainable protection for crops
- Raw materials do not compete with food production

3 GOOD HEALTH AND WELL-BEING



ENSURE HEALTHY LIVES AND PROMOTE WELL-BEING FOR ALL AT ALL AGES

- A number of Borregaard's products replace hazardous chemicals such as solvents
- Products that contribute to fat reduction
- Diagnostics (fine chemicals)
- Focus on the health and safety of employees

4 QUALITY EDUCATION



ENSURE INCLUSIVE AND QUALITY EDUCATION FOR ALL AND PROMOTE LIFELONG LEARNING

- Prioritising employee training – many training programmes in the Group
- Cooperation with schools (education, equipment, visitor programmes)
- Supporting a science centre

5 GENDER EQUALITY



ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

- Equal treatment rules. Active recruitment of women to all levels and positions.
- Overrepresentation of women in managerial development programmes
- 25% of Borregaard's employees were women in 2018

6 CLEAN WATER AND SANITATION



ENSURE ACCESS TO WATER AND SANITATION FOR ALL

- A focus on reducing water consumption
- Working with, and investing in, emission cuts
- Producing products for use in water purification
- Own water treatment facility at the plant in Sarpsborg

7 AFFORDABLE AND CLEAN ENERGY



ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL

- Increased energy recovery from renewable sources
- Increased production of bioethanol for fuel in 2018
- Provides process heat for local district's heating system

8 DECENT WORK AND ECONOMIC GROWTH



PROMOTE INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, EMPLOYMENT AND DECENT WORK FOR ALL

- Borregaard and the rest of the industry generate a high level of value creation and positive ripple effects in society. Borregaard employs 1,097 FTEs in 16 countries
- Substantial tax contributions
- Good working conditions and training programmes
- Over-recruitment of apprentices (in excess of internal needs)
- Financial sustainability secures investments, R&D and competence development

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



BUILD RESILIENT INFRASTRUCTURE, PROMOTE SUSTAINABLE INDUSTRIALISATION AND FOSTER INNOVATION

- Substantial investments in innovation using internal resources, as well as contributions from institutes and universities
- Sustainability is the main focus in innovation work
- Developing new, sustainable bio-based industry through the innovation projects Exilva and BALI
- Producing green chemicals used in the construction industry
- Spending a substantial proportion of turnover on innovation

10 REDUCED INEQUALITIES**REDUCE INEQUALITY WITHIN AND AMONG COUNTRIES**

- A high degree of collective welfare benefits in the company
- A high degree of mobility across the organisation – opportunities for all

11 SUSTAINABLE CITIES AND COMMUNITIES**MAKE CITIES INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE**

- Social engagement in local areas
- Support for schools, recreational activities, social initiatives and urban development

12 RESPONSIBLE CONSUMPTION AND PRODUCTION**ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS**

- Sustainable business model with bio-based products
- Investments in renewable energy (sustainability)
- Energy strategy for increasing the use of green and renewable energy and energy efficiency
- Environmental investments to cut emissions and waste
- Improved chemical safety

13 CLIMATE ACTION**TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS**

- The biorefinery concept is an integral part of the business model – an important climate measure
- Established EHS/climate and energy strategy
- Greenhouse gas emissions are assessed in relation to transport options
- Establishing science-based targets for cutting greenhouse gas emissions
- Investments in renewable energy

14 LIFE BELOW WATER**CONSERVE AND SUSTAINABLY USE THE OCEANS, SEAS AND MARINE RESOURCES**

- Reduced emissions to water
- Utilisation of lignin from pulp mills has led to lower emissions to water
- Built and financed a salmon cultivation facility on own premises

15 LIFE ON LAND**SUSTAINABLY MANAGE FORESTS, COMBAT DESERTIFICATION, HALT AND REVERSE LAND DEGRADATION, HALT BIODIVERSITY LOSS**

- Sustainability criteria are stressed when purchasing wood
- Active cooperation with stakeholders in the forest value chain
- Chain of Custody certified in accordance with FSC and PEFC forest certification standards

16 PEACE, JUSTICE AND STRONG INSTITUTIONS**PROMOTE JUST, PEACEFUL AND INCLUSIVE SOCIETIES**

- Guidelines for ethics and corporate social responsibility
- Respect for the law and active contribution to good dialogue with the authorities

17 PARTNERSHIPS FOR THE GOALS**REVITALISE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT**

- Member of the Global Compact and Responsible Care
- Environmental reporting: CDP, Global Compact and annual report
- Represented in various environmental forums, nationally and internationally



CORPORATE GOVERNANCE

Borregaard's principles for good corporate governance form the basis for long-term value creation, benefitting shareholders, employees and society. These principles promote a healthy corporate culture where sustainability, long-term perspective and integrity are fundamental values.

01 Implementation and reporting on corporate governance

Borregaard is subject to the requirements of Section 3–3b of the *Norwegian Accounting Act*, the *Norwegian Code of Practice for Corporate Governance* and the *Continuing Obligations of Stock Exchange Listed Companies*. Electronic versions of the Accounting Act, Code of Practice and Continuing Obligations are freely available at www.lovdata.no, www.nues.no and www.oslobors.no, respectively.

This report follows the system used in the Code of Practice from 16 October 2018. It covers all clauses of the Code of Practice and describes how Borregaard complies with them. If there is a deviation, the reason for the deviation is explained.

The Board of Directors approved this report at its meeting on 13 March 2019. The statement is cited on page 114. The General Meeting will consider the statement at its meeting on 11 April 2019.

The Board will work to ensure that the Company complies with the requirements of Section 3–3b of the Accounting Act and the Code of Practice. The principles of good corporate governance are integrated into the Board's decision-making process, and the Board will continually discuss and evaluate the principles and their implementation.

02 Business

According to the Articles of Association, Borregaard's purpose involves: *"...the development, production and sale of biochemicals, bio-based speciality products and other chemicals, as well as other business operations that are naturally related therewith."*

The Board of Directors has clear objectives, strategies and risk profiles for the company's business activities. Borregaard's activities focus on Performance Chemicals, Speciality Cellulose, Ingredients, Fine Chemicals and Cellulose Fibrils. For a more detailed description, see the

section The Borregaard Group on page 4. Borregaard's goal is to deliver good profitability with a targeted return on capital employed¹ (ROCE) minimum 15% pre-tax over a business cycle. For a more detailed account of corporate goals and strategies, see the section The Borregaard Group on page 4.

The Borregaard Group will contribute to the sustainable development of society through responsible commercial operations and continuous improvement. The Group has ethical guidelines and guidelines for corporate responsibility, available at www.borregaard.com.

¹ Alternative Performance Measures, see page 121 for definition

The Sustainability and Corporate Responsibility Report can be found from page 17 in this Annual Report. From page 40, the Annual Report gives an account of Borregaard's systematic work in areas important for stakeholders such as

employees, business partners and the community.

The Board evaluates the objectives, strategies and risk profiles yearly.

03 Equity and dividends

The Group's equity as of 31 December 2018 was NOK 3,321 million. The capital structure is appropriate for the company's objective, strategy and risk profile. The Board has made the following statement about the dividend policy:

"Under the current dividend policy adopted by the Board, Borregaard intends to pay regular and progressive dividends reflecting the expected long-term earnings and cash flows of the Borregaard Group, targeting an annual dividend between 30% and 50% of the Company's net profit for the preceding financial year."

For the financial year 2018, the Board proposes a dividend of NOK 2.25 per share, up from NOK 2.00 per share in 2018. Dividend will be paid on 25 April 2019 to shareholders registered in the Company's shareholders' register as evidenced in a transcript as of 15 April 2019. Acquired shares subject to ordinary settlement in the Norwegian Securities Register (VPS), will carry the right to receive dividends if acquired up to and including 11 April 2019.

The Board has no authority to issue new shares. The authority to purchase treasury shares is limited to defined purposes and applies until the next General Meeting. The General Meeting votes on each individual purpose to be covered by the authorisation. At the General Meeting in 2018, the Board was authorised to buy treasury shares up to a total nominal value of NOK 10 million, corresponding to 10% of the current share capital. The authorisation is valid until the General Meeting in 2019, but no longer than 30 June 2019.

The authorisation may only be used in connection with share-based incentive programmes, shares for employees and for repurchase of shares for cancellation. As of 31 December 2019, Borregaard held 450,215 treasury shares to be used in share-based incentive programmes.

There are no provisions in Borregaard's Articles of Association concerning the buy-back or issue of shares. Transactions in treasury shares have taken place on the market at stock exchange prices, according to the Oslo Stock Exchange safe harbour rules and according to good stock exchange practice in Norway.

04 Equality of treatment of shareholders and transactions with related parties

Borregaard has one class of shares, and each share entitles the holder to one vote. The nominal value is NOK 1.00.

A more detailed account of the terms and conditions relating to the entitlement to vote at the General Meeting is given below under item 6.

It is Borregaard's policy that shareholder value shall not be diluted by the issuance of new shares. If the Board proposes a deviation from the pre-emption rights of existing shareholders in the event of an increase in capital, it must be possible to justify this as being in the common interest of the Company and its shareholders. This justification must be stated in the notice of the General Meeting.

The Instructions for the Board of Borregaard ASA include rules for dealing with cases of transactions with close associates.

The Instructions for the Board are publicly available under "Investor Relations" on the Company's website. According to the Instructions, the Chair of the Board must be informed about the transaction and decide on how to deal with the case.

Transactions with related parties are disclosed in Note 33 to the Group accounts. In the case of transactions between Borregaard and a shareholder, the shareholder's parent company, a member of the Board, executive personnel or close associate of any of these, the Board will ensure that a value assessment is carried out by an independent third party. Similarly, the Board will arrange for a value assessment by an independent third party in the case of transactions between companies within the Group, if there are minority shareholders in one of the companies.

05 Shares and negotiability

All of Borregaard's shares confer equal rights and are freely negotiable. There are no provisions in the Articles of Association restricting the free negotiability of shares.

06 General Meetings

The Board of Borregaard has taken steps to ensure that as many shareholders as possible may exercise their rights by participating in the General Meeting. The notice of the General Meeting and administrative documents must be available on Borregaard's website no later than 21 days before the General Meeting. The final date for registration is no more than three days before the General Meeting. The Board, the President and CEO, the external auditor and the Chair of the Nomination Committee will be present at the General Meeting.

Shareholders may either appoint a proxy or submit a vote in advance using the Internet, using either DNB or the Norwegian Central Securities Depository (VPS) investor services. There are links to these services on the Borregaard website. It is stipulated in the Articles of Association that the notice of the General Meeting must indicate the rules established by the Board for advance voting.

The Articles of Association contain no special provisions with regard to the opening and chairing of the General Meeting. In line with the Code of Practice, the Board will arrange for the General Meeting to be opened by an independent person. In the notice of the General Meeting, the Board will indicate who will open the meeting and propose a Chair who satisfies the independence requirements of the Code of Practice, to be elected by the General Meeting.

If shares have been transferred, the new shareholder may vote if the transfer has been registered with VPS before the final date for registration with the General Meeting. If the transfer has been notified to VPS and evidence of this can be provided at the General Meeting, the shareholder will also be allowed to vote. According to Norwegian law, voting is

only permitted in relation to shares registered in the owner's name. In order to confer voting rights, shares registered to a nominee account must be reregistered under the name of the beneficiary owner in VPS before the final date for registration with the General Meeting.

Shareholders unable to attend the General Meeting may vote by proxy. If the proxy has been given to Borregaard, the Chair of the Board or the Chair of the General Meeting will be appointed to vote on the shareholder's behalf. The proxy form has been designed in such a way that the shareholder may provide instructions for each item to be dealt with, and for each candidate to be elected. Information on the use of proxy voting and shareholders' rights to have items dealt with at the General Meeting, is given both in the notice of a General Meeting and on the Borregaard website.

According to the Articles of Association, Clause 7, the Board may decide that documents relating to items to be dealt with at the General Meeting should not be sent to shareholders, but instead be made available on the Borregaard website. The same applies to documents, which by law must be included in, or attached to, the notice of a General Meeting. A shareholder may at any time demand to have documents sent relating to items to be dealt with at the General Meeting. The provision in the Articles of Association is consistent with Section 5-11a of the Norwegian Public Limited Liability Companies Act, which is an exception from the main rule stipulated in Section 5-6 (5), whereby the annual accounts, annual report, auditor's report and the Statement from the Board of Directors must be sent to the shareholders no later than one week before the General Meeting. If the Board decides to make the documents available on the website, they will be available no later than 21 days prior to the General Meeting.

07 Nomination Committee

The Articles of Association stipulates that the Company shall have a Nomination Committee. The General Meeting elects the members and the Chair of the Committee. There is an option to vote for each individual candidate. The Instructions for the Nomination Committee are available under "Investor

Relations" at www.borregaard.com. The members and Chair of the Nomination Committee were elected in 2018 on the basis of a proposal from the Nomination Committee as recommended by the Code of Practice.

The Nomination Committee consists of four members, elected for one year, i.e. until the General Meeting in 2019.

The Nomination Committee will propose:

- Candidates for shareholder-elected Board members and the chair
- Candidates for members of the Nomination Committee and the chair
- Remuneration for the Board and the Nomination Committee

The Nomination Committee has adapted its procedures to comply with the recommendations in the Code of Practice. When the Committee is considering candidates for the Chair of the Board, it is supplemented by a representative appointed by the employee-elected Board members.

The Instructions establish guidelines for the preparation and conducting of elections to the Nomination Committee and Board, as well as the criteria for electability, general requirements for the recommendations and rules for dealing with cases in the course of the Nomination Committee's work.

Information about the composition of the Nomination Committee, which members are up for election and how input and proposals can be given to the Nomination Committee, can be found under "Investor Relations" on the Company's website. The Nomination Committee has been composed in accordance with the Code of Practice to safeguard the interests of the shareholder community. The composition meets the Code's requirements for independence. None of the members of the Nomination Committee are members of the Board, nor does the Nomination Committee include the President and CEO or any other executive personnel.

The members are:

- Mimi K. Berdal (chair)
- Erik Must
- Rune Selmar
- Ola Wessel-Aas

Borregaard's SVP Organisation and Public Affairs serves as the secretary of the Nomination Committee.

08 The Board of Directors: Composition and independence

The Board has been put together with the aim of safeguarding the interests of the shareholder community and the Company's need for competence, capacity and diversity. The Board consists of the Chair, six members and two observers. The employees have elected two of the members and the two observers. The composition of the Board meets the requirements of the Code of Practice. All shareholder-elected members are independent of the Company's management, main shareholders and important business associates. No one from day-to-day management is a member of the Board. There have been no cases in which a member of the Board has been disqualified on the grounds of a lack of impartiality.

According to the Norwegian Public Limited Liability Companies Act, the Board's term of office is two years. Borregaard's Articles of Association comply with this requirement. The General Meeting may set a shorter term of office.

It is the task of the Nomination Committee to recommend the term of office of the Board. The shareholder-elected members of the Board have been elected for a period of one

year, as an annual evaluation of the composition provides the greatest flexibility. The current Board has been elected for the period leading up to the 2019 General Meeting.

The Articles of Association does not require members of the Board to own shares in the Company. However, according to a resolution at the General Meeting in 2018 shareholder-elected Board members are required to use part of their remuneration to acquire shares in the Company. The Annual Report provides information about Board members' share ownership, background, qualifications, terms of office, independence and the length of time they have been members of the Board of Borregaard. There is also information about any major positions in other companies and organisations, and participation in Board meetings at Borregaard. It has been agreed with the employees that there will be no corporate assembly in either Borregaard ASA or its main subsidiary, Borregaard AS. Instead, employees have extended representation rights on the companies' Boards. In accordance with the Norwegian Public Limited Liability Companies Act, employees are entitled to elect two members and two observers to the Board.



09 The work of the Board of Directors

THE DUTIES OF THE BOARD OF DIRECTORS

The duties of the Board are stated in the Public Limited Liability Companies Act and in the Instructions for the Board of Directors, which among other things define the responsibilities and obligations of the Board. The rules governing the handling of cases by the Board are also stipulated in the Instructions for the Board. The Instructions for the Board also include regulations governing the President and CEO's disclosure requirements and the duty to carry out the resolutions of the Board. There are also guidelines on the preparation of matters to be considered by the Board and provisions whereby employees must be informed of the Board's resolutions. Other instructions, and clarification of the obligations, authorisations and responsibilities of day-to-day management, are adopted on an ongoing basis.

The Board adopts an annual plan of meetings and work that includes its strategic work, commercial issues and control work. The Board held eight meetings and dealt with 65 agenda items in 2018. The Board's annual evaluation process includes discussions regarding the work in more detail. See the section "Internal Evaluation by the Board".

The President and CEO prepares items for the Board in consultation with the Chair of the Board. The Instructions for the Board contain provisions for the handling of matters before the Board, as well as rules concerning impartiality, joint and parallel investments, see item 4. The Board has established two permanent committees, the Compensation Committee and the Audit Committee, both of which are described in more detail below. These committees pass no resolutions, but they supervise administrative work on behalf of the Board and prepare items for decision by the Board.

The committees may draw on the resources of the Company and obtain advice and recommendations from sources outside the Company.

COMPENSATION COMMITTEE

The Compensation Committee makes recommendations to the Board regarding the President and CEO's salary and terms, and supervises the general conditions for other executive personnel within the Group. It is chaired by Jan Oksum. Margrethe Hauge and Ragnhild Anker Eide are also members. Borregaard's SVP Organisation and Public Affairs serves as its secretary. The composition of the Committee complies with the Code of Practice requirements for independence, and all members of the Committee are considered to be independent of the executive personnel.

The mandate of the Committee has been incorporated in the Instructions for the Board. The Committee will additionally deal with any specific questions relating to compensation for employees of the Group.

AUDIT COMMITTEE

The Audit Committee supports the Board in fulfilling its responsibilities with respect to financial reporting, internal accounting controls and auditing matters. It is chaired by Terje Andersen. Tove Andersen, Helge Aasen and Åsmund Dybedahl are members, and the Vice President Finance serves as its secretary. The composition of the Committee complies with the requirements of the Code of Practice for independence and competence. The recommendations of the Nomination Committee provide information as to which members of the Board meet the independence and competence requirements for members of the Audit Committee. The mandate of the Committee has been incorporated in the Instructions for the Board.

INTERNAL EVALUATION BY THE BOARD

The Board has carried out the annual evaluation of its own activities and competence. The results have been made available to the Nomination Committee.

The Board reviews the Company's guidelines on ethics, anti-corruption and corporate responsibility on an annual basis. The Group companies must perform regular reviews of the risk factors linked to Borregaard's corporate responsibility at a general level, and review the risk of breaches of the ethical requirements.

IMPARTIALITY AND CONFLICT OF INTEREST

The Instructions for the Board have regulations about impartiality. They establish that members of the Board may not take part in the handling of, or decisions in, cases in which the member of the Board or a close associate has a prominent personal or financial interest. Members of the Board shall also at all times consider whether there are any circumstances which, from an objective point of view, are likely to weaken confidence in the member's impartiality, or which may lead to conflicts of interest in connection with the Board's handling of the case. Such circumstances must be discussed with the Chair of the Board.

With regard to the Group's ethical guidelines, employees must, on their own initiative, inform their superiors of any case of impartiality or conflict of interest, and they must not take part in the processing of such cases.

10 Risk management and internal control

The Board of Directors is ultimately responsible for Borregaard's internal control system. Each member of the Group Executive Management is responsible for internal control within their respective areas. Borregaard's main objective is to provide sustainable solutions based on renewable resources and unique competence. The risk management system is essential for achieving the overall objective.

RISK MANAGEMENT

Risk management shall ensure that risks relevant to Borregaard's objectives are identified, analysed and dealt with at the earliest possible stage and in a cost-effective manner.

A sound risk culture in Borregaard's operating units is a prerequisite for a successful risk management process. An operating unit may be a plant, an organisational department, a subsidiary or a business unit.

Comprehensive risk assessments related to either operations or projects are carried out on an ongoing basis in all units and reported to the next management level. Top-down risk evaluations are mainly focused on climate change, environment, health and safety (EHS), and profitability.

The risk picture is presented and reviewed annually or when needed by the Board, and quarterly by the Audit Committee.

An operating unit's risk picture identifies the principal risk factors associated with the unit's value chain. The individual unit managers in the Group are responsible for acquainting themselves with all significant risk factors within their area of responsibility, thus contributing to a financially and administratively sound handling of these risks. A central risk management function has been established at Group level headed by the Chief Risk Officer (CRO), who is responsible for Borregaard's risk management model and implementation support. Furthermore, the Group CRO shall facilitate the risk assessment process and contribute to the identification, analysis and handling of risks across business areas and disciplines.

The Board conducts a review of the Group's risk picture at least annually. The aggregate risk picture is consolidated by the CRO and reviewed with the Group Executive Management before it is submitted to the Audit Committee and finally to the Board.

INTERNAL CONTROL

Borregaard has documented its internal procedures, including a description of authority, in the quality management system. The Group has a dual control principle for approvals, and the main accounting and purchasing system (SAP) enforces this requirement.

Personnel within finance and controlling functions perform internal control reviews in the Group's legal entities.

Monthly financial reports are sent to the Board. Each legal entity submits reports into the consolidation system in accordance with the annual financial calendar. There are monthly meetings among key finance personnel to review financial results, incidents, projects, estimates, etc. This input is used in the monthly reporting to the Board and the quarterly meetings with the Audit Committee.

The Group's quarterly reports are reviewed by the Audit Committee prior to the Board meeting. The external auditor is also present at the Audit Committee meetings and attends the Board meeting when the Board approves the annual financial statements.

ETHICS AND CORPORATE RESPONSIBILITY

The Company and its subsidiaries work continuously with ethics, anti-corruption and corporate responsibility, which are integral parts of the basis for decisions. The status of the work by the business areas involving corporate responsibility is included in the Sustainability and Corporate Responsibility Report. In 2017, a dedicated Sustainability Board was established by the President and CEO. The Sustainability Board will address and follow up on important topics and initiate processes aimed at developing policies, actions and goals within the areas covered in the Sustainability and Corporate Responsibility report. The Sustainability Board is chaired by the SVP Organisation and Public Affairs. The Sustainability Board reports to the President and CEO.

COMPLIANCE BOARD

In 2017, Borregaard established a Compliance Board consisting of the SVP Organisation and Public Affairs (Chair), General Counsel, Vice President Finance and CRO. The Compliance Board shall support the Group companies' management by raising awareness of compliance matters, reporting on its activity and findings and contributing to improvements. The Compliance Board reports to the President and CEO and the annual Compliance Report is reviewed by the Board.

WHISTLEBLOWING

Borregaard has established a whistleblowing system and a separate channel, operated by Borregaard's General Counsel. Any unethical behaviour can be reported by e-mail or by phone in accordance with Borregaard's Code of Conduct, Section 4.2.

11 Remuneration of the Board of Directors

All remunerations of the Board have been disclosed in Note 5 to the financial statements of Borregaard ASA. The remuneration of the Board is not dependent on earnings, and no share options have been granted to members of the Board. It is required that the shareholder-elected board members use part of their remunerations to acquire shares in the Company.

In its recommendation, the Nomination Committee proposed the compensation to the Board for the period up to the General Meeting in 2019.

12 Remuneration of executive personnel

The Board's Compensation Committee makes recommendations to the Board regarding the President and CEO's compensation and terms, and supervises the general conditions for executive personnel. The Board assesses the President and CEO's remuneration once a year.

The Board's statement on salaries and other remuneration of executive personnel (see Note 9 to the consolidated financial statement) contains an account of the

remunerations given to executive personnel and the Group's Remuneration Guidelines for 2018 including criteria related to share option schemes.

An annual cap has been placed on bonuses and long-term incentives. The Board's statement is available to shareholders at the same time as the notice of the General Meeting.

13 Information and communications

Borregaard's accounting procedures are transparent and in accordance with the International Financial Reporting Standards (IFRS). The Audit Committee monitors the Company's reporting on behalf of the Board.

Borregaard strives to communicate actively and openly with the financial market. The annual and quarterly reports contain information on the various aspects of the Company's activities. The quarterly presentations are published on Borregaard's website, along with the quarterly and annual reports, under "Investor Relations".

All shareholders and other financial market players are treated equally as regards access to financial information. The Group's Investor Relations Department maintains regular contact with shareholders, potential investors, analysts and other financial market stakeholders. Borregaard adheres to the Oslo Stock Exchange recommendation on reporting of relevant information to the investor community. The financial calendar for 2019 is published under "Investor Relations" at www.borregaard.com.

14 Take-overs

The Board's approach to takeovers is published on the Company's website under "Investor Relations". The Board will not seek to prevent or obstruct any takeover bid for Borregaard's operations or shares. In the event of such a bid, in addition to complying with relevant legislation and regulations, the Board will seek to comply with recommendations in the Code of Practice, including obtaining a valuation from an independent expert. On

this basis, the Board will recommend whether or not the shareholders should accept the bid. There are no other written guidelines in the event of a takeover bid. The Board has not found it appropriate to draw up any explicit principles other than the actions described above. The Board otherwise concurs with what is stated in the Code of Practice regarding this issue.

15 Auditor

The Board of Directors has determined the procedure for the external auditor's regular reporting to the Board.

Annually, the external auditor presents to the Board an assessment of risk, internal control and an assessment of the quality of financial reporting, and at the same time presents the audit plan for the following year. The external auditor also takes part in the Board's discussions on the annual financial statements, including a session without the presence of management.

Both the external auditor and the President and CEO attend all meetings of the Board's Audit Committee. For further information, see Section 10 regarding risk management.

Borregaard has guidelines for the management's use of the external auditor for services other than auditing.

Responsibility for monitoring such use in detail has been delegated to the secretary of the Audit Committee, who is the Vice President Finance. The secretary will approve significant assignments in advance and compile an annual summary of services other than auditing provided to the Company.

Details of the Company's use and remuneration of the external auditor are disclosed in Note 5 to the financial statements of Borregaard ASA. The General Meeting is informed about the Group's overall remuneration of the auditor.

In connection with the auditor's participation in the Audit Committee and the Board of Directors' consideration of the annual statements, the auditor also confirms his or her independence.



THE GROUP EXECUTIVE MANAGEMENT



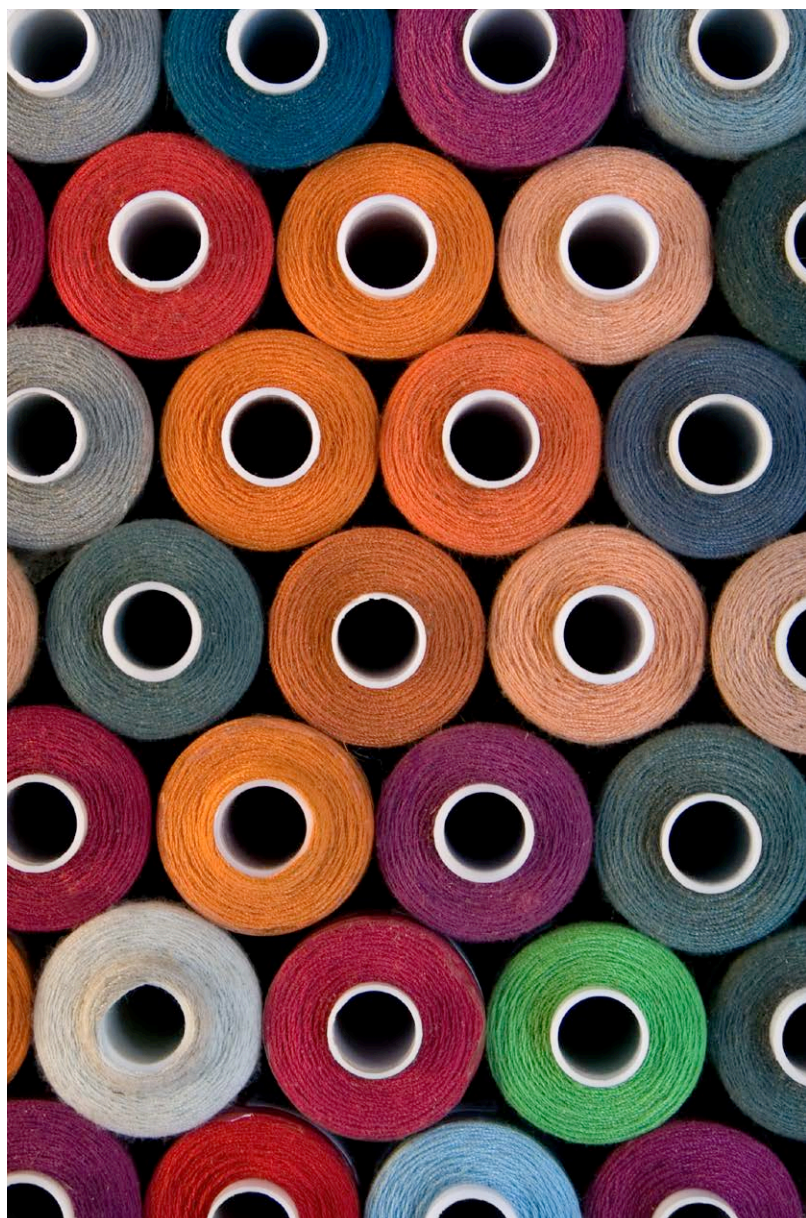
**PER A.
SØRLIE**
*President and Chief
Executive Officer (CEO)*

Per A. Sørлие has been with Borregaard since 1990 and was appointed President and CEO in 1999. He has served Borregaard as CFO (1990-1993) and Executive Vice President of the Fine Chemicals division (1993-1999). Previously, Mr. Sørлие held positions as CFO at Bjølsen Valsemølle and Hafslund's US operations. Mr. Sørлие holds a Degree in Business Administration (siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen, Norway.



**MORTEN
HARLEM**
*Executive Vice President
(EVP), Performance
Chemicals*

Morten Harlem has served as EVP of Borregaard LignoTech (Performance Chemicals business) since 2003. Since joining Borregaard in 1994, he has assumed different roles in sales and marketing. Previously, Mr. Harlem held positions in various marketing roles with Nutreco. Mr. Harlem holds a Master of Science Degree in Business Administration from the University of Colorado in Boulder, USA.



**TOM ERIK FOSS-
JACOBSEN**
*Executive Vice President
(EVP), Speciality Cellulose*

Tom Erik Foss-Jacobsen has served as EVP of Speciality Cellulose since 2007. Since joining Borregaard in 1996, he has assumed various roles in sales and marketing. Previously, Mr. Foss-Jacobsen worked as a Business Development Manager EMEA at InFocus Corp. Prior to that, he worked as Assistant Product Manager Soft Drinks at Borg Bryggerier. Mr. Foss-Jacobsen holds a Master's Degree in International Marketing and Strategy from the Norwegian Business School (BI) and a Bachelor's Degree in Civil Engineering.



GISLE LØHRE JOHANSEN

Senior Vice President (SVP), R&D, Business Development and EVP Fine Chemicals

Gisle Løhre Johansen has served as SVP of Business Development/R&D since 2007 and EVP of Fine Chemicals

since 2013. Since joining Borregaard in 1991, he has assumed various positions including Site Manager in Sarpsborg (1999-2007) and Site Director of Borregaard Schweiz (2006-2007). Mr. Johansen holds a Master's Degree in Organic Chemistry from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway.



PER BJARNE LYNGSTAD

Chief Financial Officer (CFO)

Per Bjarne Lyngstad has been with Borregaard since 1988. He was appointed CFO in 1998 and prior to that, he assumed various finance

and administrative positions in Borregaard and LignoTech USA. Mr. Lyngstad has a Graduate Programme in Economics and Business Administration (siviløkonom HAE) from the Norwegian School of Economics and Business Administration in Bergen, Norway.



OLE GUNNAR JAKOBSEN

Plant Director of Borregaard's Sarpsborg Site (Norway)

Ole Gunnar Jakobsen has served as Plant Director of Borregaard's Sarpsborg production site since 2006.

Since joining Borregaard in 1995, he has assumed various positions in production management in various plants at the site in Sarpsborg. Mr. Jakobsen holds a Bachelor's Degree in Mechanical Engineering and a Master's Degree in Process Engineering from Telemark University College (HiT) in Porsgrunn, Norway.



DAG ARTHUR AASBØ

Senior Vice President (SVP), Organisation and Public Affairs

Dag Arthur Aasbø has been SVP of Organisation and Public Affairs since 2008.

Since joining Borregaard in 1993, he has assumed positions in Borregaard relating to communications and public affairs. Mr. Aasbø also has experience as editor and in communication management roles in various organisations. Mr. Aasbø holds a Bachelor's Degree in Business Administration from the Norwegian Business School (BI) and has also studied Communications/Journalism and Religion/Ethics.



TUVA BARNHOLT

Senior Vice President (SVP), Strategic Sourcing

Tuva Barnholt has been SVP Strategic Sourcing since 2005. Since joining Borregaard in 1998, she has assumed various positions in Borregaard

including Project Manager, Energy and Production Manager and Technical Director at the Sarpsborg site. Previously, Ms. Barnholt held positions in engineering management and energy systems development at Nexans, ABB and Oslo Energi. Ms. Barnholt holds a Master of Science Degree from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway.



SVEINUNG HEGGEN

General Counsel

Sveinung Heggen was appointed General Counsel of Borregaard 1 January 2013. Before joining Borregaard, he served as attorney-at-law at Orkla ASA, Legal Department

(from 1992). Prior to that, he held different positions in the Ministry of Finance, Tax Law Department (1985-1992). Mr. Heggen holds a Cand. Jur. Degree from the University of Oslo.



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2018

CONSOLIDATED FINANCIAL STATEMENTS 2018

INCOME STATEMENT

Amounts in NOK million	NOTE	2018	2017
Sales revenues	2, 8	4,705	4,522
Other operating revenues		80	96
OPERATING REVENUES	2, 7	4,785	4,618
Cost of materials	21	-1,843	-1 681
Payroll expenses	9, 10	-978	-928
Other operating expenses	9, 11	-1,061	-954
Depreciation and impairment property, plant and equipment	17, 18	-323	-306
Amortisation intangible assets	17	-4	-4
Other income and expenses ¹	13	-	-9
OPERATING PROFIT		576	736
Finance income	14	313	199
Finance costs	14	-327	-220
Financial items, net	14	-14	-21
PROFIT/LOSS BEFORE TAXES		562	715
Taxes	15	-137	-157
PROFIT/LOSS FOR THE YEAR		425	558
Profit/loss attributable to non-controlling interests	31	-51	-8
Profit/loss attributable to owners of the parent		476	566
EBITDA adj. ¹		903	1,055
EBITA adj. ¹	7	580	749

EARNINGS PER SHARE

Amounts in NOK	NOTE	2018	2017
Earnings per share (100 million shares)	16	4.76	5.66
Diluted earnings per share	16	4.76	5.66

STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	NOTE	2018	2017
PROFIT/LOSS FOR THE YEAR		425	558
ITEMS NOT TO BE RECLASSIFIED TO P&L			
Actuarial gains and losses (after tax)	10, 15	5	-6
Total		5	-6
ITEMS TO BE RECLASSIFIED TO P&L			
Change in hedging reserve after tax (cash flow)	15, 29	-103	82
Change in hedging reserve after tax (net investment in subsidiaries)	15	-25	13
Translation effects		32	-15
Translation effects joint venture	6	-12	8
Total		-108	88
TOTAL ITEMS NOT TO BE AND TO BE RECLASSIFIED TO P&L		-103	82
THE GROUP'S COMPREHENSIVE INCOME		322	640
Profit/loss attributable to non-controlling interests	31	-42	-11
Profit/loss attributable to owners of the parent		364	651

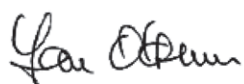
¹ Alternative Performance Measures, see page 121 for definition.

STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	NOTE	31.12.2018	31.12.2017
ASSETS			
Intangible assets	17	100	111
Property, plant and equipment	18	3,623	3,126
Deferred tax assets	15	2	9
Investment in joint venture	6	100	118
Other assets	20	228	84
NON-CURRENT ASSETS		4,053	3,448
Inventories	21	856	734
Receivables	22	956	971
Cash and cash equivalents	23	86	180
CURRENT ASSETS		1,898	1,885
TOTAL ASSETS		5,951	5,333
EQUITY AND LIABILITIES			
Group equity	30	3,123	2,889
Non-controlling interests	31	198	107
TOTAL EQUITY		3,321	2,996
Deferred tax	15	51	80
Provisions and other liabilities	24	220	197
Interest-bearing liabilities	27	1,115	743
NON-CURRENT LIABILITIES		1,386	1,020
Interest-bearing liabilities	27	272	283
Income tax payable	15	111	134
Other liabilities	25	861	900
CURRENT LIABILITIES		1,244	1,317
EQUITY AND LIABILITIES		5,951	5,333

Sarpsborg, 13 March 2019

THE BOARD OF DIRECTORS OF BORREGAARD ASA

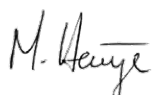


 JAN ANDERS OKSUM
Chair


TERJE ANDERSEN




TOVE ANDERSEN



MARGRETHE HAUGE



HELGE AASEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



 PER A. SØRLIE
President and CEO

STATEMENT OF CASH FLOW

Amounts in NOK million	NOTE	2018	2017
Profit/loss before taxes		562	715
Amortisation, depreciation and impairment charges		327	316
Changes in net working capital, etc.		-194	-92
Dividend (share of profit) from joint venture	6	6	11
Taxes paid		-143	-170
CASH FLOW FROM OPERATING ACTIVITIES		558	780
Investments property, plant and equipment and intangible assets*	17,18	-762	-968
Other capital transactions		13	10
CASH FLOW FROM INVESTING ACTIVITIES		-749	-958
Dividends		-199	-349
Proceeds from exercise of share options/shares to employees		23	11
Buy-back of treasury shares		-32	-29
Gain/loss on hedges of net investments in subsidiaries		-22	8
NET PAID TO SHAREHOLDERS		-230	-359
Repayment of interest-bearing debt		-960	-258
Proceeds from interest-bearing liabilities		1,292	668
Change in interest-bearing receivables/other liabilities		-2	46
CHANGE IN NET INTEREST-BEARING LIABILITIES	27	330	456
CASH FLOW FROM FINANCING ACTIVITIES		100	97
CHANGE IN CASH AND CASH EQUIVALENTS	23	-91	-81
Cash and cash equivalents as of 1 January		180	265
Change in cash and cash equivalents		-91	-81
Currency effect of cash and cash equivalents		-3	-4
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	23	86	180

* INVESTMENTS BY CATEGORY

Amounts in NOK million	NOTE	2018	2017
Replacement investments	17, 18	346	344
Expansion investments ¹	17, 18	416	624
TOTAL		762	968

The cash flow statement has been prepared according to the indirect method and reflects cash flows from operating,

investing and financing activities and explains changes in "Cash and cash equivalents" in the reporting period.

¹ Alternative Performance Measures, see page 121 for definition.

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK million	Share capital (Note 30)	Share premium fund	Other paid-in equity	Retained earnings	Hedging reserve	Translation effect	Actuarial gains/losses	Total Group equity	Non-controlling interests	Total equity
EQUITY 31 DECEMBER 2016	100	1,346	397	981	-215	86	-16	2,679	34	2,713
Profit/loss for the year	-	-	-	566	-	-	-	566	-8	558
Items in other comprehensive income	-	-	-	-	95	-4	-6	85	-3	82
The Group's comprehensive income	-	-	-	566	95	-4	-6	651	-11	640
Paid dividend	-	-	-	-349	-	-	-	-349	-	-349
Buy-back of treasury shares (Note 30)	-	-	-	-29	-	-	-	-29	-	-29
Exercise of share options (Note 9, 30)	-	-	-	-	-	-	-	0	-	0
Shares to employees (Note 9, 30)	-	-	15	-	-	-	-	15	-	15
Option costs (share-based payment)	-	-	6	-	-	-	-	6	-	6
Additions of non-controlling interests (Note 31)	-	-	-	-84	-	-	-	-84	84	-
EQUITY 31 DECEMBER 2017	100	1,346	418	1,085	-120	82	-22	2,889	107	2,996
Profit/loss for the year	-	-	-	476	-	-	-	476	-51	425
Items in other comprehensive income	-	-	-	-	-128	11	5	-112	9	-103
The Group's comprehensive income	-	-	-	476	-128	11	5	364	-42	322
Paid dividend	-	-	-	-199	-	-	-	-199	-	-199
Buy-back of treasury shares (Note 30)	-	-	-	-32	-	-	-	-32	-	-32
Exercise of share options (Note 9, 30)	-	-	6	-	-	-	-	6	-	6
Shares to employees (Note 9, 30)	-	-	23	-	-	-	-	23	-	23
Option costs (share-based payment)	-	-	6	-	-	-	-	6	-	6
Additions of non-controlling interests (Note 31)	-	-	192	-126	-	-	-	66	133	199
EQUITY 31 DECEMBER 2018	100	1,346	645	1,204	-248	93	-17	3,123	198	3,321



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2018

NOTE 01 General information

The consolidated financial statements for Borregaard ASA (Borregaard/Group), including notes, for the year 2018, were endorsed by the Board of Directors (the Board) of Borregaard ASA on 13 March 2019. Borregaard ASA is a public limited company and its offices are located in Hjalmar Wessels vei 6, 1721 Sarpsborg, Norway. Borregaard develops, produces and markets specialised biomaterials, biochemicals and biofuels to a wide range of customers in global niches. Borregaard's business model is linked to its advanced biorefinery that utilises the different components in the biomass to produce high value-added products that to a large extent can substitute petrochemical alternatives. Borregaard is an international company with production units and sales offices in the world's most important industrial markets.

The financial statements for 2018 have been prepared and presented in full compliance with the International Financial Reporting Standards (IFRS), as adopted by the EU. The valuation and recognition of the items in the financial statements have been carried out in accordance with current IFRS standards. The consolidated financial statements contain certain items that are crucial to understand the financial results for 2018. The most important principles are described below. Borregaard is exposed to currency risk for most of its sales, primarily in USD and EUR. A substantial part of this exposure, defined as estimated net cash flow in USD or EUR, is routinely hedged on a rolling basis with a nine-month time horizon. Subject to certain criteria being met, the hedging horizon may be extended to three years in order to secure competitive

margins. On the revenue side, most of Borregaard's business segments are exposed to price risk in international markets. The accounting policies regarding hedging are described in Note 29 and information regarding currency risks is provided in Note 28. Other income and expenses¹ (OIE) are presented as part of operating profit in the Income Statement, but are presented after EBITA adj.¹ in the segment information in Note 7, which are reported according to management reporting. See Note 13 for details and specifications. The accounting policies for business areas are described in segment information for the various business areas in Note 7.

Borregaard has business areas as operating segments. The operating segments correspond to the way in which the business areas report figures to the Group executive management (key decision maker). The segments are Performance Chemicals, Speciality Cellulose and Other Businesses.

Borregaard has largely switched to defined contribution pension plans. The contractual early retirement scheme in Norway is accounted for as a defined contribution plan. This may be changed if reliable and consistent data that justify accounting for the plan as a defined benefit plan can be obtained.

Impairment tests that have been carried out confirm that the value of the combined Borregaard Group's most exposed assets are intact as of 31 December 2018. See Note 5 for further details.

NOTE 02 Basis for preparation

Borregaard ASA was incorporated as a public limited liability company on 22 August 2012. The Borregaard Group includes subsidiaries and a joint venture directly and indirectly owned by Borregaard ASA. The consolidated financial statements are primarily based on the historical cost principle.

Sales revenues from contracts with customers are recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements. However, Borregaard acts as an agent related to freight services where Borregaard invoices the customer on behalf of the carrier and has no risk related to the freight services. See Note 8.

Sales revenues are presented after deducting discounts, value-added tax and other government charges and taxes.

Borregaard sells goods in many different markets, and revenues from the sale of goods are recognised in the income statement when the risk and rewards of ownership of the goods are passed to the buyer, in accordance with delivery terms. Interest income is recognised in the income statement when earned, while any dividends are recognised on the date they are approved for payment. Interest income and dividends are presented under "financial income".

The Group has at all times various contracts for the sale and purchase of goods and services in connection with the production. These contracts are regarded as part of Borregaard's ordinary operating activities and are therefore not specified or indicated in any other way. The contracts are deemed to be strictly sale or purchase contracts with no embedded derivatives. The company also enters into currency derivatives contracts.

¹ Alternative Performance Measures, see page 121 for definition.

Hedging instruments which satisfy the criteria for hedge accounting, are reported at fair value in the statement of financial position and changes in fair value are recognised in comprehensive income. Derivatives which do not satisfy the criteria for hedge accounting, are recognised at fair value through profit and loss.

Assets that no longer justify their value are written down to the recoverable amount, which is the higher of value in use and fair value minus selling costs.

The accrual accounting principle and the going concern assumption are underlying assumptions for preparing the combined financial statements.

An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it falls due within 12 months and when it consists of cash or cash equivalents on the statement of financial position date. Other items are non-current. A dividend does not become a liability until it has been formally approved by the General Meeting. The amortisation of intangible assets and other income and expenses¹ are presented on separate lines, broken down by segment.

All amounts are in NOK million unless otherwise stated. The functional currency of the parent company (Borregaard ASA) is NOK and the Group's reporting currency is NOK. Currency exchange rates as of 31 December are used in the balance sheet, whereas average currency exchange rates are used in the profit and loss.

CONSOLIDATION PRINCIPLES

The consolidated financial statements show the overall financial results and the overall financial position when the parent company Borregaard ASA and its controlling interests are presented as a single economic entity. All the companies have applied consistent principles and all internal matters between the companies have been eliminated.

Interests in companies in which the Group alone has control (subsidiaries) have been fully consolidated, line by line, in the consolidated financial statements from the date the Group had control. These entities will be fully consolidated until the date such control ends. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. If the Group controls a subsidiary, the non-controlling interests' share of profit or loss after tax and their share of equity are presented on separate lines.

Interests in companies in which the Group together with others has joint control (joint ventures, see Note 6) are consolidated based on the equity method. The profit or loss from the joint venture is part of operating profit. Borregaard ASA does not have any interests in associated companies (normally 20-50% owned companies).

Business combinations are accounted for using the acquisition method. In connection with the acquisition of a subsidiary, the establishment of a joint venture or any acquisitions of significant influence in associates, a purchase price allocation is carried out. The acquisition is reported in the financial statements from the date the Group has control. The date of control is normally the date on which the acquisition agreement takes effect and has been approved by all relevant authorities. Assets and liabilities are measured at fair value at the time of acquisition. If there are non-controlling interests in the acquired company, these will be measured at their share of identified assets and liabilities. Goodwill allocated to non-controlling interests is considered separately in each acquisition. Goodwill is determined as the excess of the purchase price and the amount recognised as non-controlling interest over the fair value of identified assets and liabilities assumed.

OTHER MATTERS

Emission rights. Government granted and purchased CO₂ emission allowances expected to be used towards Borregaard's own emissions are recognised as intangible assets at nominal value (cost). The amounts are not amortised but are tested for impairment at least annually. In case there are actual CO₂ emissions exceeding the level covered by emission rights, those are recognised as a liability. Sale of government granted CO₂ emission rights are recognised at the time of sale at the transaction price. CO₂ emission allowances purchased for trading are measured and classified as inventory.

Contingent liabilities and contingent assets. A contingent liability or asset is a possible obligation or a possible asset whose existence is uncertain and will be confirmed by the occurrence or non-occurrence of a future event, such as the outcome of legal proceedings or the final settlement of an insurance claim. Liabilities are recognised in the financial statements if there is a more than a 50% probability that the liability has arisen; if the probability is lower, the matter is disclosed in notes to the financial statements unless the probability of payment is remote. An asset will only be recognised in the statement of financial position if it is virtually certain (95%) that the Group will realise the asset. The disclosure requirement applies to other contingent assets.

¹ Alternative Performance Measures, see page 121 for definition.

NOTE 03 New accounting standards

The consolidated financial statements will be affected by IFRS amendments in the future. Many IFRS projects are in the final phases, but many of them have either not been finally adopted or not been endorsed by the EU. It is highly likely that many of these projects will be adopted. The following section covers only the amendments that will or may be of relevance for accounting in Borregaard.

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective and approved by EU.

IFRS 16 LEASES

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Borregaard will apply the following transition methods when implementing IFRS 16 from 1 January 2019:

- There will be no reassessment of contracts already assessed under IAS 17 of whether a contract is or contains a lease.
- The opening balance as of 1 January 2019 will be adjusted with the cumulative implementation effect ("the modified retrospective method").
- Prior year comparatives will not be restated.
- Lease liabilities will be measured at the present value of remaining lease payments, discounted using incremental borrowing rate as of 1 January 2019.
- Right-of-use assets will be measured at an amount equal to the lease liability.
- Leases for which the lease term ends during 2019 will be expensed as short term leases.
- Borregaard will take advantage of the general low value exemption in IFRS 16. This means that no low value leases (USD 5,000) will be capitalised and that lease payments will be expensed as earlier.

The incremental borrowing rate is based on interbank interest rate (NIBOR, EURIBOR or LIBOR) plus margin plus country risk mark-up.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary, the impact of IFRS 16 adoption is expected to be as follows on the statement of financial position as of 1 January 2019:

ITEM	BALANCE SHEET AMOUNT AS OF DECEMBER 2018	BALANCE SHEET AMOUNT AS OF 1 JANUARY 2019 (after implementation)
Total assets	5,951	6,184
Equity	3,321	3,321
Equity ratio	55.8%	53.7%

NOTE 04 Use of estimates

The management has made use of estimates and assumptions in preparing the financial statements. This applies to assets, liabilities, revenues, expenses and supplementary information

related to contingent liabilities. Areas where estimates have considerable significance are, for example:

Amounts in NOK million	NOTE	ESTIMATE/ASSUMPTIONS	CARRYING VALUE 31 DECEMBER 2018	CARRYING VALUE 31 DECEMBER 2017
Property, plant and equipment	18	Recoverable amount and estimation of correct remaining useful life	3,623	3,126
Pension liabilities (net)	10	Economic and demographic assumptions	79	85
Environmental provisions	35	Provisions for permanent closure of the Opsund landfill and measures to strengthen ground water barriers and for handling polluted soil around the chlor-alkali plant in Sarpsborg	46	56

Property, plant and equipment are largely based on a directly paid cost price and depreciated over estimated useful life. In the case of several of Borregaard's tangible assets, changes in assumptions may lead to substantial changes in value.

Other estimates and assumptions are reported in various notes and any information that is not logically included in other notes is presented in Note 35 "Other matters".

Future events and changes in operating parameters may make it necessary to change estimates and assumptions. New interpretations of standards may result in changes in the principles chosen and presentation. Such changes will be recognised in the financial statements when new estimates

are prepared and whenever new requirements with regard to presentation are introduced. These matters are discussed in both the section on new accounting standards and other notes.

EXERCISE OF JUDGEMENT

The financial statements may also be affected by the choice of accounting principles and the judgement exercised in applying them. This applies, for instance, to the distinctions between operating and finance leases, and to the assessment of items presented as other income and expenses¹ on a separate line. It is important to note that a different set of assumptions for the presentation of the financial statements could have resulted in changes in the lines presented.

NOTE 05 Impairment assessments

Goodwill and intangible assets with an indefinite useful life must be tested annually for impairment to assess whether the values are recoverable. Borregaard carries out this test prior to preparing and presenting its financial statements for the 3rd quarter. If there are indications of impairments, the assets are tested immediately. A new impairment test is carried out in the 4th quarter when necessary, for instance if the underlying assumptions have changed.

Borregaard has substantial non-current assets in the form of tangible (property, plant and equipment) and some minor intangible assets. An explanation of the details of and changes in these assets is presented separately in Note 17 and 18.

Estimate uncertainty, in some cases considerable, attaches to both property, plant and equipment and intangible assets. Both valuation and estimated useful lifetime are based on future information that is always subject to a great degree of uncertainty.

Borregaard routinely monitors assets and if there are indications that the value of an asset is no longer recoverable, an impairment test will be carried out to determine whether the asset can still justify its carrying value. If new estimates conclude that the value is no longer recoverable, the asset is

written down to the recoverable amount, i.e. the greater of the net sales value and the value in use (discounted cash flow).

Cash flows relating to the assets are identified (see table below) and discounted. Future cash flow is based on specified assumptions and the plans adopted by the entity. If the discounted value of future cash flows is lower than the capitalised value of the unit's capital employed, the assets are written down to the recoverable amount. If the discounted value is higher than the capital employed, this means that the value of the intangible asset or goodwill is recoverable. In cases where the discounted value exceeds the capital employed by less than 20%, a further sensitivity analysis is carried out to check the calculation. When relevant, assumptions and estimates are reviewed, and the robustness of the investment is measured in relation thereto.

Borregaard's goodwill is related to the prior acquisition of Borregaard Austria Group:

Amounts in NOK million	GOODWILL	
	2018	2017
Borregaard Austria Group	32	32
TOTAL GOODWILL	32	32

¹ Alternative Performance Measures, see page 121 for definition.

ESTIMATE ASSUMPTIONS AND CASH-GENERATING UNITS

A cash-generating unit (CGU) is the lowest level at which independent cash flows can be measured. Based on the forecasts, expectations and assumptions that were applied, Borregaard Austria Group's CGU justify the capitalised value of goodwill at 31 December 2018 and the fair value exceeds the book value by more than 20%.

Calculations of future cash flows are based on a number of assumptions regarding both economic trends and the estimated useful life. Borregaard is affected by fluctuating markets and estimates made in weak markets can differ substantially from estimates made in stronger markets.

The discount rate applied is based on the Group's cost of capital, which in general has been estimated to be in the range of 6-11% before tax, based on a weighted average of required rates of return for the Group's equity and debt (WACC).

The required rate of return on the Group's equity is estimated by using the capital asset pricing model (CAPM). The required rate of return on debt is estimated on the basis of a long-term risk-free interest rate to which is added a credit margin derived from Borregaard's marginal long-term borrowing rate. The discount rate is adjusted for country risk, the level of inflation and operational risk, depending on the particular value being calculated. A growth rate in terminal value of 2% is used in the impairment test.

Future cash flows are estimated on the basis of the budget for next year and the following two forecast years. As from year four a terminal value is calculated. Cash flow estimates are sensitive to changes in sales revenues, raw material and energy prices and the coherent ability to maintain margin assumptions. The sensitivity of the estimates, even when there is a reasonable possibility of a change in assumptions, did not give grounds for impairment charges.

NOTE 06 Joint venture

The Group has a 50% interest in Umkomaas Lignin Ltd (LignoTech South Africa). The Group's interest in the joint venture is accounted for using the equity method in the consolidated financial statements. The result from the joint venture is accounted for as part of operating revenues. Summarised financial information of the joint venture, based on its IFRS financial statements, eliminating sales and costs for transactions with the Borregaard Group, and reconciled with the carrying amount of the investment in the consolidated financial statements, are set out below. For guarantees, see Note 32.

The consolidated financial statements include the entire Borregaard Group, where the joint venture is accounted for using the equity method. The consolidated figures in the Sustainability and Corporate Responsibility Report do not include the joint venture as Borregaard does not control the operation of LignoTech South Africa. LignoTech South Africa is however important for Borregaard and its relevant stakeholders and is therefore referred to in Chapter D of the Sustainability and Corporate Responsibility Report.

Amounts in NOK million	2018	2017
Operating revenues	301	329
Operating expenses	-237	-209
Net financial items	-6	16
Profit before taxes	58	136
Taxes	-16	-32
Profit/loss for the year before dividend	42	104
Borregaard's share of profit for the year	21	52
Non-current assets	154	175
Current assets	116	148
Cash and cash equivalents	52	46
Total assets	322	369
Equity	200	236
Non-current liabilities	46	53
Current liabilities	76	80
Equity and liabilities	322	369
Borregaard's carrying amount of the investment	100	118
	2018	2017
Share in joint venture 1 January	118	121
Share of profit after tax	21	52
Dividend	-27	-63
Currency translation effect	-12	8
Share in joint venture 31 December	100	118

NOTE 07 Segments

Borregaard has business areas as operating segments. The operating segments correspond to the way in which the business areas report figures to the Group executive management (key decision maker). The business segments are Performance Chemicals, Speciality Cellulose and Other Businesses.

Performance Chemicals develops, produces, markets and sells lignin-based products as a niche supplier and solutions provider. Speciality Cellulose develops, produces, markets and sells speciality cellulose products as a niche supplier and solutions provider. In addition, Borregaard produces second generation bioethanol.

Performance Chemicals and Speciality Cellulose contribute to more than 80% of the revenue and adjusted EBITA adj.¹ in the Borregaard Group. Borregaard utilises the lignin from the sulphite pulping process to produce bio-based vanillin. Other Businesses consists of the areas Ingredients, Fine Chemicals and Cellulose Fibrils in addition to services and captive production of certain chemicals at the Sarpsborg site and corporate functions.

The arm's length principle is applied to pricing of transactions between the various segments and companies. Borregaard AS provides services to the companies in the Group and charges them for these services.

Figures for the geographical distribution of non-current operating assets, investments in property, plant and equipment, sales revenues and the number of man-years are also presented. See Note 8.

The Group applies the same principles for the presentation of segment information as for the rest of its consolidated financial statements, and the operating profit/loss in the segment information is identical to the information presented in the income statement for the Group. There is therefore no need for further reconciliation of these income statement items. Borregaard has a central finance function, and the financing of the various segments does not necessarily reflect the real financial strength of the individual segments. Financial items are therefore presented only for the Group as a whole.

The segment information tables show the key figures in which management monitors the business, such as total operating revenue, operating expenses, EBITA adj.¹, amortisation and impairment of intangible assets, other income and expenses¹ and operating profit for each business area. It does not disclose internal sales between the various segments as it is considered immaterial.

The table below shows the revenues generated by Performance Chemicals, Speciality Cellulose and Other Businesses. Operating revenues consist of sales revenues (Note 8) and other revenues such as commissions, revenues from waste received for incineration etc.

The segment information also includes cash flow from operations¹, replacement investments, expansion investments¹ and working capital for each area.

SEGMENTS 2018

Amounts in NOK million	PERFORMANCE CHEMICALS	SPECIALITY CELLULOSE	OTHER BUSINESSES	ELIMINATIONS	BORREGAARD GROUP
INCOME STATEMENT					
Total operating revenue	2,237	1,669	927	-48	4,785
Operating expenses and depreciation	-1,923	-1,412	-918	48	-4,205
EBITA adj. ¹	314	257	9	-	580
Amortisation and impairment intangible assets	-4	-	-	-	-4
Other income and expenses ¹	-	-	-	-	-
Operating profit	310	257	9	-	576
Net financial items	-	-	-	-	-14
Profit before tax	-	-	-	-	562
CASH FLOW					
Cash flow from operations ¹	313	308	88	-	709
Replacement investments	-96	-98	-152	-	-346
Expansion investments ¹	-272	-111	-33	-	-416
CAPITAL STRUCTURE					
Working capital at year-end	523	447	65	-	1,035
Capital employed ¹ at year-end	-	-	-	-	4,937
Return on capital employed ¹	-	-	-	-	12.7%

¹ Alternative Performance Measures, see page 121 for definition.

SEGMENTS 2017

Amounts in NOK million	PERFORMANCE CHEMICALS	SPECIALITY CELLULOSE	OTHER BUSINESSES	ELIMINATIONS	BORREGAARD GROUP
INCOME STATEMENT					
Total operating revenue	2,176	1,698	783	-39	4,618
Operating expenses and depreciation	-1,727	-1,348	-833	39	-3,869
EBITA adj. ¹	449	350	-50	-	749
Amortisation and impairment intangible assets	-4	-	-	-	-4
Other income and expenses ¹	-9	-	-	-	-9
Operating profit	436	350	-50	-	736
Net financial items	-	-	-	-	-21
Profit before tax	-	-	-	-	715
CASH FLOW					
Cash flow from operations ¹	504	408	48	-	960
Replacement investments	-57	-172	-115	-	-344
Expansion investments ¹	-510	-46	-68	-	-624
CAPITAL STRUCTURE					
Working capital at year-end	429	396	12	-	837
Capital employed ¹ at year-end	-	-	-	-	4,256
Return on capital employed ¹	-	-	-	-	19.1 %

RECONCILIATION CAPITAL EMPLOYED¹

Amounts in NOK million	2018	2017
CAPITAL EMPLOYED¹	4,937	4,256
Other non-current assets	228	84
Cash and cash equivalents	86	180
Net deferred tax	-49	-71
Interest-bearing liabilities	-1,387	-1,026
Income tax payable	-111	-134
Accumulated write-down and amortisation of goodwill and intangible assets	-157	-149
Other (derivatives, accruals, etc.)	-226	-144
EQUITY	3,321	2,996

RECONCILIATION CASH FLOW FROM OPERATIONS¹

Amounts in NOK million	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES	558	780
Financial items, net	14	21
Taxes paid	143	170
Share of JV dividend/profit after tax	-6	-11
CASH FLOW FROM OPERATIONS¹	709	960

RECONCILIATION WORKING CAPITAL

Amounts in NOK million	2018	2017
Receivables	956	971
Inventories	856	734
Other liabilities	-861	-900
Derivatives etc. not included in above items	84	32
WORKING CAPITAL	1,035	837

¹ Alternative Performance Measures, see page 121 for definition.

NOTE 08 Geographical breakdown

IFRS 15, Revenue from contracts with customers, was implemented from 1 January 2018. Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g. disposals of property, plant and equipment).

Borregaard applied the full retrospective method. Borregaard has evaluated the potential consequences of the standard. For contracts with customers, sale of Borregaard's products is generally expected to be the only performance obligation, and the adoption of IFRS 15 does not have any impact on the Group's revenue and profit or loss. The Group's revenue recognition occurs at a point in time when control of the

asset is transferred to the customer, generally on delivery of the goods. Borregaard also have some contracts that include volume rebates to some customers. The Group currently recognises rebates based on the most likely amount method which is also in line with IFRS 15. Summarised, there were no changes in equity as of 1 January 2018 as a result of the IFRS 15 implementation.

Borregaard has contract liabilities of NOK 28 million as of 31 December 2018 (NOK 43 million in 2017) related to delivery terms. See Note 25.

Borregaard has operations in several countries and below is a summary showing the geographical breakdown of non-current operating assets, investments, number of man-years and sales revenues.

Amounts in NOK million	NON-CURRENT OPERATING ASSETS		INVESTMENTS		NUMBER OF MAN-YEARS ²		SALES REVENUES	
	2018	2017	2018	2017	2018	2017	2018	2017
Norway	2,835	2,515	605	500	757	762	234	190
Rest of Europe	74	74	3	12	124	124	2,095	1,907
Asia	3	4	1	2	57	51	989	1,128
America	811	644	153	454	159	128	1,328	1,221
Rest of the world	-	-	-	-	-	-	59	76
TOTAL	3,723	3,237	762	968	1,097	1,065	4,705	4,522

SALES REVENUES PER PRODUCT GROUP

Amounts in NOK million	2018	2017
Performance Chemicals	2,183	2,117
Cellulose	1,548	1,566
Bioethanol	120	121
Fine Chemicals	247	242
Ingredients	471	358
Other	136	118
TOTAL REVENUES	4,705	4,522

Operating revenues consist of sales revenues and other revenues such as commissions, revenues from waste received for incineration etc.

² Excluding employees in joint venture in LignoTech South Africa.

NOTE 09 Payroll expenses and remuneration

Amounts in NOK million	2018	2017
Wages	-799	-760
Share-based payments (options and discounted shares)	-12	-10
Employer's national insurance contribution	-99	-96
Pension costs (Note 10)	-65	-59
Remuneration to Board Members	-3	-3
PAYROLL EXPENSES	-978	-928
Average number of man-years	1,084	1,037

REMUNERATION OF THE EXECUTIVE MANAGEMENT

2018

Amounts in NOK thousand	BASE SALARY	BONUS	PENSION COST	BENEFITS IN KIND	TOTAL
Per A. Sørli	3,239	695	680	252	4,866
Morten Harlem	2,317	504	374	255	3,450
Tom Erik Foss-Jacobsen	1,687	364	240	219	2,510
Gisle Løhre Johansen	1,691	365	251	161	2,468
Ole Gunnar Jakobsen	1,582	341	221	195	2,339
Tuva Barnholt	1,563	337	243	203	2,346
Per Bjarne Lyngstad	1,778	383	268	217	2,646
Dag Arthur Aasbø	1,558	337	225	163	2,283
Sveinung Heggen	2,165	204	337	232	2,938
Liv Longva*	1,268	101	153	174	1,696
TOTAL REMUNERATION	18,848	3,631	2,992	2,071	27,542

* Has acted as a member of the Group Executive Management in 2018 during Tuva Barnholt's absence

2017

Amounts in NOK thousand	BASE SALARY	BONUS	PENSION COST	BENEFITS IN KIND	TOTAL
Per A. Sørli	3,159	1,202	675	240	5,276
Morten Harlem	2,128	573	371	208	3,280
Tom Erik Foss-Jacobsen	1,642	811	239	212	2,904
Gisle Løhre Johansen	1,646	631	255	207	2,739
Ole Gunnar Jakobsen	1,540	761	220	188	2,709
Tuva Barnholt	1,521	582	255	202	2,560
Per Bjarne Lyngstad	1,731	664	270	209	2,874
Dag Arthur Aasbø	1,517	582	228	191	2,518
Sveinung Heggen	2,064	255	340	204	2,863
TOTAL REMUNERATION	16,948	6,061	2,853	1,861	27,723

Remuneration is actual paid remuneration in the respective years and includes vacation pay on salary earned the previous year.

Bonuses however is accrued bonuses the respective years to be paid the next year.

REMUNERATION GUIDELINES – 2018

Borregaard's remuneration guidelines for persons in managerial positions cover base salary, pensions, annual bonus and long-term incentives (LTI).

In general, remuneration shall be competitive and simple with long-term arrangements that have appropriate flexibility. Furthermore, there should be consistency between the personal compensation elements and the Company's goals and results. Borregaard uses recognised external job assessment systems to benchmark its remuneration programme. In addition to the executive management, a few key persons are

also included in the annual bonus and LTI plan.

The base salary level should be close to the median for comparable companies and positions.

The *pension scheme* The pension scheme is based on a defined contribution plan for all employees in Norway. In general, the intention is that the system should give the same relative pension independent of salary level. The contribution level is 5% of salary between 0 and 7.1G and 20% of salary over 7.1G. 1G is Norwegian National Insurance Scheme's basic amount and was NOK 96,883 as of 31 December 2018.

Annual bonuses

Annual bonuses are based on performance within financial results (ROCE¹ and EVA-improvement³) and EHS (total recordable injuries and sick leave) in addition to specific personal goals. Maximum annual bonus is 50% of the annual base salary. A defined “good performance level” should, over time, give a bonus of 30%. Annual bonus includes holiday payment, but does not provide basis for pension contributions. If, during a period of three years after the bonus is paid out, it appears that the basis for the bonus calculation was wrong, the company has the right to make corrections in the form of reduced future bonus payments.

Share-based options

Key employees (including Group Executive Management) receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of share-based options is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given below. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for share-based options at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. The share-based options are settled as part of equity and not cash.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested

irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of a share-based option award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 16).

General information about the long-term incentive (LTI) scheme

The Borregaard LTI scheme is a share option scheme related to the share price and is part of an overall remuneration programme for senior management and key personnel. The share option scheme implies that employees can obtain options that entitle them to purchase a defined number of shares at a given value after a fixed period of time. In order to adapt the scheme to its objectives, allocation of new share options and opportunities for gain are subject to a number of limitations.

The Board will consider on an annual basis whether to allocate options, and can provide guidance for such allocation in accordance with the framework of these guidelines. The Board may decide whether the options are to be actual or synthetic.

The share option scheme must be approved at Borregaard’s General Meeting. The Board and its compensation committee will ensure that the allocation of options and the administration of the scheme comply with the intentions.

The purpose of the scheme

The scheme is based on two main factors:

- Strengthening of the ownership perspective, in that the development of shareholders value (share price) and investment in shares are the criteria for this compensation.
- Retention; Providing senior managers and other key personnel an incentive for staying with the company over the long-term.

Members of the Group Executive Management team are expected, including through the share option scheme, to build up and retain a holding of Borregaard shares corresponding to two annual base salaries for the CEO and one annual base salary for the other members of the Group Executive Management.

¹ Alternative Performance Measures, see page 121 for definition.

³ Economic value added.

Allocation criteria

Options may be granted to employees in certain senior positions where there is a particular need for an ownership perspective and a long-term attachment to the company. This applies to the President and CEO and other members of the Group Executive Management as well as key personnel and specialists in the business areas and corporate staff based on a number of defined criteria:

- The employee/position is particularly important/critical for achievement of the company's goals.
- The employee has delivered a good performance in line with the company's culture and values.
- The employee is considered difficult to replace, and there may be a risk that he/she will leave the company.

Restrictions on allocations

- Annually, the total allocation of new share options can only account for a maximum of 0.8% of the company's shares. The total number of outstanding options can at a maximum represent 2.0% of the company's shares.

Restrictions on gains

- Share options shall have a pre-defined strike price based on a minimum share price increase determined at

allocation, where actual interest rates are part of the assessment of the strike price. The strike price shall be adjusted for dividends and other factors relevant to share capital (e.g. amortisation and new share issues).

- The total individual gain on redemption per calendar year can amount to a maximum of two annual base salaries for the President and CEO and one annual base salary for other employees.

Time limits

- The share options will expire after five years, the vesting period is three years and the options can be exercised during the last two years.

Requirements for the purchase of shares

- Employees must use at least half of the gain (after tax) to purchase Borregaard shares, with a lock-in period of three years. This requirement will remain in place for the Group Executive Management team until a shareholding equivalent to two annual base salaries for the CEO and one annual base salary for the other members is acquired.

ISSUED AND OUTSTANDING SHARE OPTIONS AS OF 31 DECEMBER 2018:

YEAR ISSUED	NUMBER OF SHARE OPTIONS ISSUED	EXERCISED/ FORFEITED SHARE OPTIONS	NUMBER OF OUTSTANDING SHARE OPTIONS	STRIKE PRICE*	EXPIRE DATE	NUMBER OF EMPLOYEES**
2014	500,000	135,000	365,000	41.00	25 Oct 2019	21
2015	500,000	40,000	460,000	44.49	27 Oct 2020	21
2017	364,000	12,000	352,000	98.61	17 Feb 2022	24
2018	400,000	-	400,000	78.00	7 Feb 2023	27
	1,764,000	187,000	1,577,000			

* The strike price has been adjusted for dividends. Strike prices were set at 10% above the share price at the time of allocation.

** Including Group Executive Management.

Share-based related costs for 2018 for the Group Executive Management was NOK 3 million in total for all programs.

in 2017 have been forfeited in 2018. 20,000 share options issued in 2014 have been forfeited prior to 2018.

115,000 share options issued in 2014 and 20,000 share options issued in 2015 have been exercised in 2018. 20,000 share options issued in 2015 and 12,000 share options issued

Changes in outstanding share options for Borregaard's employees are shown in the table below:

NUMBER OF SHARE OPTIONS	2018		2017	
	NO.	WAEP*	NO.	WAEP*
Outstanding at the beginning of the year	1,344,000	59.90	980,000	48.28
Exercised during the year	-135,000	-	-	-
Granted during the year	400,000	78.00	364,000	100.61
Forfeited during the year	-32,000	-	-	-
Outstanding at year-end**	1,577,000	64.26	1,344,000	59.90
Exercisable options at year-end**	825,000		480,000	

* Weighted average exercise price adjusted for dividend. Amounts in NOK.

** Expire dates are 25 October 2019 for 365,000 options, 27 October 2020 for 460,000 options, 17 February 2022 for 352,000 options and 7 February 2023 for 400,000 options.

Borregaard has used the Black-Scholes model when estimating the value of the options. The volatility is calculated on the basis of the average volatility the past years for Borregaard and Borregaard peers. In the model, new option awards have been based on the 2018 assumptions in the following table. See Note 35 for share options issued in 2019.

ASSUMPTIONS	2018	2017
Expected dividend-yield (%)	-	-
Expected volatility (%)	28.0	28.4
Historical volatility (%)	28.0	28.0
Risk-free return (%)	1.5	1.5
Expected life of option (years)	5.0	5.0
Weighted average share price (NOK)	74.16	93.06

SHARE OPTIONS AND SHARES HELD BY GROUP EXECUTIVE MANAGEMENT AND RELATED PARTIES AS OF 31 DECEMBER

	PROGRAMME 2014 STRIKE NOK 41.00*		PROGRAMME 2015 STRIKE NOK 44.49*		PROGRAMME 2017 STRIKE NOK 98.61*		PROGRAMME 2018 STRIKE NOK 78.00*		SHARES	
	No. of share options		No. of share options		No. of share options		No. of share options		No. of shares**	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Per A. Sørli	60,000	60,000	60,000	60,000	60,000	60,000	60,000	-	147,439	146,421
Morten Harlem	40,000	40,000	45,000	45,000	21,000	21,000	30,000	-	47,408	46,390
Tom Erik Foss-Jacobsen	-	30,000	30,000	30,000	17,000	17,000	20,000	-	37,064	36,046
Gisle Løhre Johansen	-	25,000	25,000	25,000	15,000	15,000	15,000	-	20,708	20,490
Ole Gunnar Jakobsen	-	25,000	25,000	25,000	15,000	15,000	15,000	-	29,812	28,794
Tuva Barnholt	25,000	25,000	25,000	25,000	15,000	15,000	15,000	-	30,617	29,599
Per Bjarne Lyngstad	30,000	30,000	30,000	30,000	17,000	17,000	20,000	-	55,045	54,027
Dag Arthur Aasbø	25,000	25,000	25,000	25,000	15,000	15,000	15,000	-	47,545	46,527
Sveinung Heggen	25,000	25,000	25,000	25,000	15,000	15,000	15,000	-	9,553	8,535
Liv Longva***	-	-	15,000	15,000	-	-	15,000	-	6,351	-
TOTAL	205,000	285,000	305,000	305,000	190,000	190,000	220,000	-	431,542	416,829

* The strike price has been adjusted for dividends.

** Total share ownership including related parties.

*** Has acted as a member of the Group Executive Management in 2018 during Tuva Barnholt's absence.

DISCOUNTED SHARES FOR EMPLOYEES

The Group has a programme that gives employees, including the members of the Group Executive Management, the opportunity to buy a limited number of shares at a discount in relation to the market price. In 2018, Borregaard sold a total of 309,301 shares to employees. The share price was NOK 55.05 per share including a 25% discount. Costs in 2018, including administration costs, related to the programme in 2018 amounted to approximately NOK 6.5 million.

SPECIAL AGREEMENTS WITH THE PRESIDENT AND CEO AND OTHER MEMBERS OF THE GROUP EXECUTIVE MANAGEMENT TEAM

If the President and CEO, Per A. Sørli, by mutual agreement and in the best interest of the company, terminates the employment contract, the employee will receive pay and contractual benefits for up to 18 months after the period of notice. 75% of any income from another permanent post during the 18-month period will be deducted. The President and CEO is included in the company's ordinary pension schemes and in addition has a pension agreement to recover 60% of annual pay including benefits from 65 to 67 years with no deduction for income from other permanent post.

If the EVP Performance Chemicals, Morten Harlem, by mutual agreement and in the best interest of the company, terminates the employment contract, the employee will receive pay and contractual benefits for up to 12 months after the period

of notice. 75% of any income from another permanent post during the 12 month period will be deducted.

There are no loans to the members of the Group Executive Management.

There are no other special agreements with the Group Executive Management team.

REMUNERATION OF THE BOARD OF DIRECTORS

In the General Meeting of the Company's shareholders in April 2018 it was determined that The Board of Directors is remunerated at annual rates for the period up to the next General Meeting in 2019:

BOARD OF DIRECTORS			
Board chair	NOK	510,000	per year
Board member, shareholder-elected	NOK	305,000	per year
Board member, employee-elected	NOK	273,400	per year
Observer, employee-elected	NOK	91,000	per year
Deputy for observer	NOK	7,000	per meeting
AUDIT COMMITTEE			
Committee chair	NOK	85,300	per year
Member	NOK	57,100	per year
COMPENSATION COMMITTEE			
Committee chair	NOK	51,100	per year
Member	NOK	39,800	per year

According to a resolution at the General Meeting in 2018, shareholder-elected Board members are required to use 20% of their annual remuneration to acquire shares in the Company, until the share value reaches an amount equivalent to one year's remuneration.

REMUNERATION OF EMPLOYEE-ELECTED BOARD MEMBERS

2018

Amounts in NOK thousand	BASE SALARY	BOARD ALLOW- ANCE	BENEFITS IN KIND/ BONUS	PENSION
Åsmund Dybedahl	658	273	43	34
Ragnhild Anker Eide	799	273	40	72

REMUNERATION OF THE NOMINATION COMMITTEE

The chair of the Nomination Committee receives NOK 56,500 per year and an additional NOK 9,100 per meeting exceeding 4 meetings. Other members receive NOK 39,800 per year and an additional NOK 7,400 per meeting exceeding 4 meetings.

For shares held by the Board of Directors, see Note 5 in the Financial Statement of Borregaard ASA.

FEES TO GROUP EXTERNAL AUDITOR

Amounts in NOK million	2018	2017
Statutory audit	4	4
Other attestation services	1	1
Tax consultancy services	1	1
Other non-audit services	1	1
TOTAL FEES TO EY	7	7
STATUTORY AUDIT FEE TO OTHER AUDITORS	-	-

NOTE 10 Pensions

Borregaard has a policy to use defined contribution pension plans. However, there are some defined benefit pension plans, primarily in the USA and Norway.

DEFINED CONTRIBUTION PLANS

In the defined contribution pension plans, the company is responsible for making an agreed contribution to the employee's pension assets. The future pension will be determined by the amount of the contributions and the return on the pension savings. Once the contributions have been paid, there are no further payment obligations attached to the defined contribution pension. As a result, there is no liability recorded in the statement of financial position. The pension costs related to defined contribution plans will be equal to the contributions to employees' pension savings in each reporting period.

Contribution plans also comprise pension plans that are common to several companies and where the pension premium is determined independently of the demographic profile in the individual companies (multi-employer plans). The company is obligated to follow the Act on Mandatory company pensions in Norway and the company meets the requirements.

DEFINED BENEFIT PLANS

Defined benefit plans are measured at the present value of accrued future pension benefits at the end of the reporting period. Pension plan assets are measured at their fair value.

Changes in accounting estimates for defined benefit plans are recognised in other comprehensive income and the net interest costs for the period is calculated by using the discount rate for the liability at the beginning of the period on the net liability. As such, the net interest cost consists of interest on the liability and the return on the plan assets, whereas both have been calculated by using the discount rate. Changes in net pension liabilities as a result of payments of premiums and pension payments have been taken into consideration. The difference between the actual return and the accounted return is recognised continuously through other comprehensive income.

The current service cost and net interest income/costs are recognised immediately. The financial part of the pension cost is recognised as part of financial items, the other part is recognised in the salary and personnel cost in the income statement. Changes in value, both in assets and liabilities, are recognised through other comprehensive income.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised through profit and loss when the curtailment or settlement occurs. A curtailment occurs when the Group decides to make a material reduction in the number of employees covered by a plan or amends the terms of a defined benefit plan such that a considerable part of the current employees' future earnings will no longer qualify for benefits or will qualify only for reduced benefits.

The introduction of a new defined benefit plan or an improvement to the current defined benefit plan will lead to changes in the pension liabilities. These will be charged to expenses in a straight line during the period until the effect of the change has been accrued. The introduction of new plans or changes to existing plans which take place with retroactive effect so that the employees immediately accrue a paid-up policy (or a change in a paid-up policy) are recognised in the statement of comprehensive income immediately. Gains or losses linked to curtailments or terminations of pension plans are recognised through profit and loss when they arise.

Borregaard has pension plans that are classified as funded benefit plans and unfunded benefit plans. Expected contributions for the next year, 2019, to the defined benefit plan obligation is NOK 11 million. The largest part of the benefit plans are in the USA and Norway.

USA

The pension plans in the USA contain three different plans; two defined benefit plans for salaried and hourly employees and one supplemental post-retirement plan. In 2016, the defined benefit plans were closed for new employees and replaced with a contribution plan.

NORWAY

The net pension liabilities consist of unfunded pension plans for key personnel and liabilities related to contribution-based plans for employees who earn more than twelve times the Norwegian National Insurance Scheme's basic amount (12G). The pension plan for employees in Norway who earn more than 12G is a contribution-based plan. The sum of the accrued contributions and the return on the plan assets are presented as a pension

liability in the company's statement of financial position. The pension plan is therefore presented as a defined benefit plan.

The early retirement scheme, AFP, is recognised as a multiemployer defined contribution plan. This may change if there are sufficient reliable, consistent data to be able to recognise it as a defined benefit plan. In 2018, the premium for the early retirement scheme is 2,5% of total payments of wages between 1 and 7.1 times the average basic amount (G). All employees in Norway younger than 61 years are included, in average 785 employees in 2018, and the cost in 2018 was NOK 11 million.

PENSION PLAN ASSETS

The pension plans with pension plan assets are located in the USA. Pension plan assets are mainly invested in bonds and shares. The estimated return will vary depending on the composition of the various classes of assets. The breakdown of pension plan assets is presented below.

ASSUMPTIONS DEFINED BENEFIT PLANS

Borregaard uses the covered bonds interest rate on the Norwegian benefit plans. The discount rate is fixed at the rate on high quality corporate bonds with the same lifetime as the pension liabilities (AA-rated corporate bonds). As a rule, parameters such as wage growth, growth in G (future social security wage base) and inflation are set in accordance with recommendations on the various countries. The mortality estimate is based on up-to-date mortality tables for the various countries. Norway: K2013, USA: RP-2014 with MP-2014 adjusted backward to 2006 and projected forward using MP-2018.

ASSUMPTIONS DEFINED BENEFIT PLANS

	NORWAY		USA	
	2018	2017	2018	2017
Discount rate	2.5%	2.4%	4.1%	3,5%
Rate of return on assets	NA	NA	4.0%	4,0%
Future salary adjustment	2.25%	2.25%	4.0%	4,0%
G-multiplier*/Future social security wage base	2.25%	2.25%	3.5%	3,5%
Turnover	2.0%	2.0%	2.5%	2,5%
Expected average remaining vesting period	10.4	11.8	2.51	2.91

* 1G is NOK 96,883 as of 31 December 2018.

BREAKDOWN OF NET PENSION COSTS

Amounts in NOK million	2018	2017
Contribution plans	-54	-52
Current service cost	-11	-7
NET PENSION COSTS (incl. national insurance contributions)	-65	-59

BREAKDOWN OF NET PENSION LIABILITIES AS OF 31 DECEMBER

Amounts in NOK million	2018	2017
Present value of funded pension obligations	-399	-422
Pension plan assets (fair value)	399	422
Net funded pension assets	-	-
Present value of unfunded pension obligations	-79	-85
CAPITALISED NET PENSION LIABILITIES	-79	-85

CHANGES IN THE PRESENT VALUE OF PENSION OBLIGATIONS DURING THE YEAR

Amounts in NOK million	2018	2017
Pension obligations 1 January	-507	-484
Current service cost (incl. national insurance contributions)	-11	-7
Interest on pension obligations	-14	-20
Actuarial gains and losses	43	-38
Benefits paid during the year	39	23
Currency translations	-28	19
PENSION OBLIGATIONS 31.12	-478	-507

CHANGES IN PENSION PLAN ASSETS DURING THE YEAR

Amounts in NOK million	2018	2017
Pension plan assets (fair value) 1 January	422	388
Expected return on pension plan assets	15	15
Contributions and benefits paid during the year	-26	-9
Actuarial gains and losses	-38	47
Currency translations	26	-19
PENSION PLAN ASSETS (FAIR VALUE) 31.12	399	422

BREAKDOWN OF PENSION PLAN ASSETS (FAIR VALUE)

AS OF 31 DECEMBER	2018	2017
Cash and cash equivalents and money market investments	1%	1%
Bonds	40%	31%
Shares	59%	68%
Total pension plan assets	100%	100%

SUMMARY OF NET PENSION LIABILITIES AND ADJUSTMENTS IN PAST FIVE YEARS

Amounts in NOK million	2018	2017	2016	2015	2014
Pension obligations	-478	-507	-484	-484	-387
Pension plan assets	399	422	388	380	323
Net pension liabilities	-79	-85	-96	-104	-64

SENSITIVITY

The above pension cost and pension liabilities related to defined benefit schemes, are based on the assumptions outlined above. The actuarial calculations are sensitive to any changes in the assumptions. A 1% increase in wage adjustment would imply a 3% increase in pension liability and 5% increase in pension cost (defined benefit schemes). A 1% increase in discount rate would imply a 11% decrease

in pension liability and 3% decrease in pension cost while a 1% reduction in discount rate would imply an 13% increase in pension liability and 3% increase in pension cost. The calculation is based on the weighted average of the defined benefit schemes. For the pension cost sensitivity shown only the service cost and interest cost on plan obligations components of cost are reported.

NOTE 11 Other operating expenses

The Borregaard Group has chosen to present its income statement based on the nature of the item of income or expense. Operating expenses have been broken down into the following main items: Cost of materials, payroll expenses, depreciation, amortisation and other operating expenses. Thus other operating expenses comprises all operating expenses that are not related to cost of materials, employee payrolls and capital costs in the form of depreciation. The most important items have been grouped into the following main items.

Amounts in NOK million	2018	2017
External distribution costs	-437	-388
Repair and maintenance costs	-173	-161
Consultants, legal advisors, temporary staff, etc.	-87	-87
Rental/leasing (Note 12)	-105	-97
Other	-259	-221
TOTAL OTHER OPERATING EXPENSES	-1,061	-954

NOTE 12 Leases and leasing

Leases are classified according to the extent to which the risks and rewards associated with ownership of a leased asset lie with the lessor or the lessee. A lease is classified as a finance

lease if it substantially transfers all risks and rewards incidental to ownership of an asset to the Company. Finance leases will be capitalised and depreciated over the lease period. Other

leases are operating leases. Lease expenses related to operating leases are reported as current operating expenses.

Reported costs relating to operating leases reflect the minimum leasing cost during the term of notice.

RENTED/LEASED PROPERTY, PLANT AND EQUIPMENT	LESSEE – OPERATING LEASES									
	MACHINERY/ PLANT		LAND, BUILDING, PROPERTY		FIXTURES, VEHICLES, ETC.		OTHER ASSETS		TOTAL	
Amounts in NOK million	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
COST CURRENT YEAR	-15	-13	-15	-17	-15	-12	-60	-55	-105	-97
Cost next year	-17	-13	-29	-30	-16	-12	-56	-43	-118	-98
Total costs 2–5 years	-41	-34	-80	-55	-18	-16	-33	-28	-172	-133
Total costs after 5 years	-	-	-54	-61	-1	-1	-	-11	-55	-73
TOTAL FUTURE LEASING COSTS	-58	-47	-163	-146	-35	-29	-89	-82	-345	-304

Borregaard does not have any financial leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The

standard is effective from 1 January 2019. See Note 3 for further details and expected effect on equity.

NOTE 13 Other income and expenses¹

Other income and expenses¹ largely consist of material positive and negative non-recurring items, restructuring costs and any substantial write-downs of both tangible and intangible assets. The main purpose of this line is to present material non-

recurring items and items substantially relating to other periods separately to ensure that the changes in and comparability of the lines presented in EBITA adj.¹ are more relevant to the company.

Amounts in NOK million	2018	2017
Write-down and accrual related to an external lignin storage tank in Norway	-	-9
TOTAL OTHER INCOME AND EXPENSES¹	-	-9

NOTE 14 Net financial items

Interest income and interest costs on loans and receivables are calculated using the effective interest method. Commitment fees and costs related to borrowings are reported as part of interest costs. The financial element of pension costs is included in other finance costs, and is disclosed in Note 10. Borrowing costs related to plant under construction are recognised in the statement of financial position together with the asset. Foreign currency gains or losses arising from operational assets and liabilities, and the hedging of such, are reported as operating revenues or operating costs. Other foreign currency gains or losses are reported as foreign exchange gain and foreign exchange loss. The foreign currency gains or losses related to net investments in subsidiaries are disclosed in Note 29.

FINANCE INCOME AND FINANCE COSTS

Amounts in NOK million	2018	2017
Interest income	4	3
Foreign exchange gain	287	196
Other finance income	22	-
TOTAL FINANCE INCOME	313	199
Interest costs	-36	-21
Foreign exchange loss	-290	-191
Other finance costs	-1	-8
TOTAL FINANCE COSTS	-327	-220
NET FINANCIAL ITEMS	-14	-21

A gain of NOK 20 million related to the sale of a minority stake in Polycarbon Industries, Inc. has been recognised as other finance income in 2018.

¹ Alternative Performance Measures, see page 121 for definition.

NOTE 15 Taxes

Income tax expense consists of the total of current taxes and changes in deferred tax. Current taxes are recognised in the financial statements at the amount that is expected to be paid to the tax authorities on the basis of taxable income reported for entities included in the combined financial statements. Current taxes and changes in deferred tax are taken to other comprehensive income to the extent that they relate to items that are included in other comprehensive income.

Deferred tax in the statement of financial position have been calculated at the nominal tax rate based on temporary differences between accounting and tax basis of assets and liabilities on the statement of financial position date.

Deferred tax liability relating to goodwill has not been recognised in the statement of financial position. Deferred tax assets are continuously assessed and are only recognised in the statement of financial position to the extent it is probable that future taxable profit will be large enough for the asset to be usefully applied. Deferred tax liability and deferred tax assets are offset as far as this is possible under taxation legislation and regulations.

TAX EXPENSE

Amounts in NOK million	2018	2017
Profit before tax	562	715
Current tax expense	-129	-162
Deferred tax expense	-8	5
TOTAL TAX EXPENSE	-137	-157
Tax as % of Profit/loss before taxes	24.4%	22.0%

RECONCILIATION OF THE GROUP'S TAX RATE

In the following table, reported taxes are reconciled with the tax charge based on the Norwegian tax rate of 23% (24%). The main tax components are specified.

Amounts in NOK million	2018	2017
23% (24%) of profit before taxes (tax rate in Norway)	-129	-172
Foreign operations with other tax rates than 23% (24%)	-2	-11
Changes in tax rate	4	11
Joint venture	5	13
Permanent differences	-9	4
Other current taxes	1	1
Correction previous years	-	-1
Other deferred taxes	-7	-2
THE GROUP'S TOTAL TAX EXPENSE	-137	-157

The corporate income tax rate in Norway was 23% in 2018. The corporate income tax rate in Norway was reduced to 22% from 1 January 2019. The reduction in tax rate is reflected in the calculation of deferred tax as of 31 December 2018.

Entities in countries with tax rates other than 23% have the net effect of increasing the tax expense. LignoTech Florida is a limited liability company (LLC) which is taxed on the owners' hand. Profit before tax is 100% consolidated in the Borregaard Group, whereas the tax expense is calculated based on Borregaard's 55% ownership.

As the profit after tax from the joint venture, LignoTech South Africa, is accounted for as part of operating profit, this does not impact the Group's tax expense and thus reduces the Group's tax rate.

There are carry forward losses in the Group which will not be recognised as deferred tax assets, and hence increase the Group's tax rate.

DEFERRED TAX LIABILITIES

Deferred tax liability consists of the Group's tax liabilities that are payable in the future. The table on the next page lists deferred tax assets and liabilities relating to the timing differences between tax accounting and financial accounting. The table on the next page shows the composition of the Group's deferred tax.

Amounts in NOK million	2018	2017
DEFERRED TAX ON TAX INCREASING/(REDUCING) DIFFERENCES		
Hedging taken to comprehensive income	-39	-8
Intangible assets and Property, plant and equipment	115	107
Net pension liabilities	-17	-19
Gain and loss tax deferral	2	3
Other non-current items	-16	-20
Total non-current items	45	63
Current receivables	-2	-1
Inventories	30	23
Provisions	-5	-4
Other current items	-13	-9
Total current items	10	9
Losses carried forward	-21	-8
Net deferred tax	34	64
Deferred tax assets, not recognised	15	7
NET DEFERRED TAX, RECOGNISED	49	71
Change in deferred tax	22	-39
Change in deferred tax taken to comprehensive income	-31	45
Acquisitions/sale of companies, translation effects, etc.	1	-1
CHANGE IN DEFERRED TAX INCOME STATEMENT	-8	5

NET DEFERRED TAX PRESENTED IN STATEMENT OF FINANCIAL POSITION

Amounts in NOK million	2018	2017
Deferred tax	51	80
Deferred tax assets	2	9
NET DEFERRED TAX	49	71

LOSSES CARRIED FORWARD BY EXPIRY DATE

Amounts in NOK million	2018	2017
Without expiry date	82	29
TOTAL TAX LOSSES CARRIED FORWARD	82	29

TAX REDUCING TIMING DIFFERENCES WITH CORRESPONDING DEFERRED TAX ASSETS 2018

Amounts in NOK million	TAX REDUCING TIMING DIFFERENCES	RECOGNISED DEFERRED TAX ASSETS	UNRECOGNISED DEFERRED TAX ASSETS	TOTAL DEFERRED TAX ASSETS
LOSSES CARRIED FORWARD BY COUNTRY				
Spain	60	-	15	15
USA	16	4	-	4
Germany	6	2	-	2
TOTAL	82	6	15	21
Other tax reducing timing differences	410	92	-	92
TOTAL TAX REDUCING TIMING DIFFERENCES	492	98	15	113
Netted deferred tax	-426	-96	-	-96
NET TAX REDUCING TIMING DIFFERENCES	66	2	15	17

Deferred tax assets are only capitalised to the extent that it is probable that there will be sufficient future taxable profit for the tax asset to be used, either because the unit recently reported a profit or because assets with excess value have

been identified. If future profits are not likely to be sufficient to absorb the tax reducing timing differences, deferred tax assets are not recognised.

NOTE 16 Earnings per share (EPS)

Earnings per share are calculated on the basis of profit for the year after non-controlling interests. As a result of the Borregaard Group's option programme (see Note 9), outstanding shares may be diluted when options are exercised. In order to take into account this future increase in the number of shares outstanding, diluted earnings per share are calculated in addition to basic earnings per share. In this calculation, the

Amounts in NOK million	2018	2017
Profit/loss for the year after non-controlling interests for continuing operations	476	566
Profit/loss/gains discontinued operations	-	-
Profit/loss for the year after non-controlling interests	476	566
Weighted average number of shares outstanding	100	100
Estimated dilution effect option programme	-	-
Weighted average number of shares outstanding diluted	100	100

average number of shares outstanding is adjusted to take into account the estimated dilutive effect of the option programme.

The share capital consists of 100 million shares as of 31 December 2018. As of 31 December 2018 there are 99,901,117 diluted shares. There were 99,957,469 diluted shares as of 31 December 2017.

Amounts in NOK	2018	2017
Earnings per share	4.76	5.66
Earnings per diluted share	4.76	5.66
Dividend per share	2.25	2.00

NOTE 17 Intangible assets

Capitalised expenditure on internally generated or specially adapted computer programmes is presented as intangible assets. The reinvestment need of specially adapted computer programmes is similar to that of other tangible assets, and the amortisation of intangible assets are presented together with Borregaard's other depreciation.

Research and development (R&D) expenditure is the expenses incurred by Borregaard in conducting research and development, including studies of existing or new products and production processes in order to secure future earnings. Expenditure on research is always expensed as incurred, while expenditure on development is recognised in the statement of financial position if the underlying economic factors are identifiable and represent probable future economic benefits of which Borregaard has control. Borregaard has a large number of projects in process at all times, but the number of projects that end in capitalisation is limited. This is due to the considerable uncertainty throughout the decision making process and the fact that only a small percentage of all projects culminate in commercial products. Furthermore, the portion of the total

project expenses that qualify for recognition in the statement of financial position are relatively small, as it is only from the time the decision to develop the product is made it can be capitalised, and that decision-making point comes at a late stage of the process. The fair value of intangible assets acquired by the company through business combinations is capitalised. Intangible assets with indefinite life will not be amortised while other intangible assets will be amortised over their useful life.

Goodwill is initially measured at cost, being the excess of the aggregate of the transferred and the amount recognised for non-controlling interest over the net identified asset acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in income statement.

Amortisable intangible assets are amortised on a straight line basis at the following rates: Development 20% and other intangible assets 10-15%. Development consists mainly of internal resources being involved in development projects. IT consists mainly of external costs.

Amounts in NOK million	DEVELOPMENT AND OTHER INTANGIBLE ASSETS	IT	GOODWILL	TOTAL
Book value 1 January 2018	63	16	32	111
Additions	1	1	-	2
Depreciation/Amortisation	-9	-5	-	-14
Impairment	-	-	-	-
Currency translations	1	-	-	1
Book value 31 December 2018	56	12	32	100
Initial cost 31 December 2018	163	141	55	359
Accumulated amortisation and impairment	-107	-129	-23	-259
Book value 31 December 2018	56	12	32	100
Book value 1 January 2017	75	20	30	125
Additions	1	-	-	1
Depreciation/Amortisation	-10	-5	-	-15
Impairment	-	-	-	-
Currency translations	-3	1	2	-
Book value 31 December 2017	63	16	32	111
Initial cost 31 December 2017	162	140	55	357
Accumulated amortisation and impairment	-99	-124	-23	-246
Book value 31 December 2017	63	16	32	111

In addition, Borregaard expensed NOK 117 million in 2018 in research and development costs (NOK 133 million).

The amounts include grants and other cost deductions. See Note 34.



NOTE 18 Property, plant and equipment

Property, plant and equipment are tangible assets intended for production, delivery of goods or administrative purposes and have a lasting useful life. They are recognised in the statement of financial position at cost minus any accumulated depreciation and impairment. Annual major maintenance stops are capitalised as part of property, plant and equipment and depreciated over a period of 12 months. All other maintenance and repairs are expensed under operating expenses as and when the maintenance is carried out, while expenditure on replacements or improvements is added to the cost price of the assets. Borrowing costs related to the construction of the Group's own property, plant and equipment are capitalised as part of the cost of the asset.

Property, plant and equipment are depreciated on a straight line basis over the useful life, at the following rates: buildings 2-4%, machinery, fixtures and fittings 4-15%, vehicles 15-25% and IT equipment 15-33%. The period of depreciation is reviewed each year and if there are changes in useful life, depreciation is adjusted. If there is any indication that an asset may be impaired, the asset will be written down to the recoverable amount if the recoverable amount is lower than the carrying value. The residual value is also calculated and if it is higher than the carrying value, depreciation is stopped. This applies in particular to buildings. The Group is committed to fulfil contracts amounting to NOK 94 million which is not recorded in the statement of financial position as of December 31, 2018 (NOK 217 million as of 31 December 2017).

Amounts in NOK million	LAND, BUILDINGS AND OTHER PROPERTY	MACHINERY AND PLANTS	ASSETS UNDER CONSTRUCTIONS	FIXTURES, FITTINGS, VEHICLES, EDP, ETC.	TOTAL
Book value 1 January 2018	960	1,390	748	28	3,126
Additions	73	269	406	13	761
Disposals	-	-	-	-	-
Transferred assets under construction	135	499	-640	6	-
Impairment	0	-3	-	-	-3
Depreciation	-62	-239	-	-9	-310
Currency translation	8	25	16	-	49
Book value 31 December 2018	1,114	1,941	530	38	3,623
Initial cost 31 December 2018	2,057	6,030	530	197	8,814
Accumulated depreciation and impairment	-943	-4,089	-	-159	-5,191
Book value 31 December 2018	1,114	1,941	530	38	3,623
Book value 1 January 2017	896	1,215	334	26	2,471
Additions	69	238	650	10	967
Disposals	-3	-	-	-1	-4
Transferred assets under construction	57	174	-231	-	-
Impairment	-	-6	-	-1	-7
Depreciation	-56	-232	-	-6	-294
Currency translation	-3	1	-5	-	-7
Book value 31 December 2017	960	1,390	748	28	3,126
Initial cost 31 December 2017	1,858	5,454	748	180	8,240
Accumulated depreciation and impairment	-898	-4,064	-	-152	-5,114
Book value 31 December 2017	960	1,390	748	28	3,126

NOTE 19 Overview of financial instruments

Transactions in foreign currencies are recognised at the exchange rate on the date of the transaction, while monetary items in foreign currencies are presented at the exchange rate on the balance sheet date, and any gain/loss is reported in the income statement as financial items. Revenues and expenses in subsidiaries with a functional currency different from the

Group's presentation currency are translated monthly at the average exchange rate for the month and accumulated. Statement of financial position items in subsidiaries with a different functional currency are translated at the exchange rate on the balance sheet date. Translation differences are reported in comprehensive income.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments, by valuation technique:

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets and liabilities.

Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

The foreign exchange element in currency forward contracts is measured at observable market prices using the foreign exchange rate set by Norges Bank, Norway's central bank. Different maturity dates add an interest rate element resulting in an estimated fair value of the currency forward contracts.

There were no transfers from one level to another in the measurement hierarchy in 2017 and 2018. Borregaard has no items defined as level 1. A description of how the derivatives are measured is provided in Note 29.

The classification and measurement requirements of IFRS 9 did not have a significant impact for the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The following changes have been made to the classification of the Group's financial assets:

- Trade receivables and Other non-current financial assets classified as Loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Debt instruments at amortised cost beginning 1 January 2018.

OVERVIEW OF FINANCIAL INSTRUMENTS 2018

Amounts in NOK million	NOTE	MEASUREMENT LEVEL	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL INSTRUMENTS AT FAIR VALUE - HEDGING INSTRUMENTS	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	DEPOSITS AND RECEIVABLES MEASURED AT AMORTISED COST	TOTAL	OF THIS INTEREST-BEARING	FAIR VALUE
NON-CURRENT ASSETS									
Non-current financial receivables	20	2	-	-	-	225	225	4	225
Non-current derivatives	20, 29	2	-	3	-	-	3	-	3
TOTAL			-	3	-	225	228	4	228
CURRENT ASSETS									
Accounts receivable	22		-	-	-	781	781	-	781
Other current receivables	22		-	-	-	43	43	-	43
Current derivatives	22, 29	2	-	16	-	-	16	-	16
Cash and cash equivalents	23		-	-	-	86	86	86	86
TOTAL			-	16	-	910	926	86	926
NON-CURRENT LIABILITIES									
Non-current financial liabilities	27	2, 3	-	-	1,116	-	1,116	1,115	1,116
Non-current derivatives	24, 29	2	-	116	-	-	116	-	116
TOTAL			-	116	1,116	-	1,232	1,115	1,232
CURRENT LIABILITIES									
Current financial liabilities	27	2, 3	-	-	272	-	272	272	272
Accounts payable	25		-	-	399	-	399	-	399
Other current liabilities	25		-	-	1	-	1	-	1
Current derivatives	25, 29	2	-	79	-	-	79	-	79
TOTAL			-	79	672	-	751	272	751
TOTAL FINANCIAL INSTRUMENTS			-	-176	-1,788	1,135	-829	-1,297	-829
Total measurement level 1			-	-	-	-	-	-	-
Total measurement level 2, assets			-	19	-	225	244	4	244
Total measurement level 2, liabilities			-	-195	-788	-	-983	-787	-983
Total measurement level 3			-	-	-600	-	-600	-600	-600

OVERVIEW OF FINANCIAL INSTRUMENTS 2017

Amounts in NOK million	NOTE	MEASUREMENT LEVEL	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH COMPREHENSIVE INCOME	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	DEPOSITS AND RECEIVABLES	TOTAL	OF THIS INTEREST-BEARING	FAIR VALUE
NON-CURRENT ASSETS									
Non-current financial receivables	20	2	-	-	-	36	36	1	36
Non-current derivatives	20, 29	2	-	48	-	-	48	-	48
TOTAL			-	48	-	36	84	1	84
CURRENT ASSETS									
Accounts receivable	22		-	-	-	761	761	-	761
Other current receivables	22		-	-	-	12	12	-	12
Current derivatives	22, 29	2	6	52	-	-	58	-	58
Cash and cash equivalents	23		-	-	-	180	180	180	180
TOTAL			6	52	-	953	1,011	180	1,011
NON-CURRENT LIABILITIES									
Non-current financial liabilities	27	2, 3	-	-	753	-	753	743	753
Non-current derivatives	24, 29	2	-	61	-	-	61	-	61
TOTAL			-	61	753	-	814	743	814
CURRENT LIABILITIES									
Current financial liabilities	27	2	-	-	283	-	283	283	283
Accounts payable	25		-	-	456	-	456	-	456
Other current liabilities	25		-	-	2	-	2	-	2
Current derivatives	25, 29	2	1	74	-	-	75	-	75
TOTAL			1	74	741	-	816	283	816
TOTAL FINANCIAL INSTRUMENTS			5	-35	-1,494	989	-535	-845	-535
Total measurement level 1			-	-	-	-	-	-	-
Total measurement level 2, assets			6	100	-	36	142	1	142
Total measurement level 2, liabilities			-1	-135	-836	-	-972	-826	-972
Total measurement level 3			-	-	-200	-	-200	-200	-200

For current assets and liabilities, fair value is estimated close or equal to book value. The bonds are determined as measurement level 3. The fair value of the bonds are deemed to equal their booked values. The bonds carry floating interest

terms and the issuer's credit quality is not considered to have changed since the bonds were issued in February 2014 and June 2018.

NOTE 20 Other assets (non-current)

Receivables are initially recognised at fair value which is generally the original invoice amount. For trade receivables see Note 22. The interest rate element is disregarded if it is insignificant, which is the case for the majority of receivables.

Amounts in NOK million	2018	2017
Non interest-bearing derivatives (Note 19)	3	48
Receivables interest-bearing (Note 19)	4	1
Receivables non interest-bearing (Note 19)	221	35
TOTAL OTHER ASSETS	228	84

NOTE 21 Inventories and cost of materials

Inventories are measured at the lower of cost and net realisable value. Purchased goods are measured at purchase cost according to the FIFO principle, while internally manufactured finished goods and work in progress are measured at production cost. Deductions are made for obsolescence. Net realisable value is the estimated selling price minus selling costs.

As of 31 December 2018 there is a total write-down of inventories of NOK 6 million (NOK 9 million). There are no reversed write-downs from earlier years. Inventories are measured at net realisable value total NOK 55 million (NOK 45 million).

Amounts in NOK million	2018	2017
Raw materials	138	103
Work in progress	45	39
Finished goods and merchandise	673	592
TOTAL INVENTORIES	856	734

Amounts in NOK million	2018	2017
Wood costs	-449	-370
Energy costs	-414	-414
Other materials	-1,067	-997
Change in work in progress and finished goods	87	100
COST OF MATERIALS	-1,843	-1,681

NOTE 22 Receivables (current)

Receivables are initially recognised at fair value which is generally the original invoice amount. For trade receivables the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Current receivables are both operating receivables and interest-bearing receivables. Operating receivables are broken down into trade receivables, accrued advance payments to suppliers and other current receivables. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

Amounts in NOK million	2018	2017
Accounts receivable (Note 19)	781	761
Non interest-bearing derivatives (Note 19)	16	58
Other current receivables (Note 19)	43	12
Total financial receivables	840	831
Advance payment to suppliers/earned income	112	131
Tax receivables	4	9
TOTAL CURRENT RECEIVABLES	956	971

CHANGE IN PROVISIONS FOR BAD DEBT:

Amounts in NOK million	2018	2017
Provisions for bad debts 1 January	10	11
Bad debts recognised as expense (- income)	1	-1
Realised losses	-	-
Translation effects	1	-
PROVISIONS FOR BAD DEBTS 31 DECEMBER	12	10

ACCOUNTS RECEIVABLES HAVE THE FOLLOWING DUE DATES:

Amounts in NOK million	2018	2017
Accounts receivable not due	665	663
Overdue receivables 1-30 days	107	89
Overdue receivables 31-60 days	12	9
Overdue receivables 61-90 days	2	2
Overdue receivables over 90 days	7	8
ACCOUNTS RECEIVABLE CARRYING AMOUNT 31 DECEMBER	793	771

NOTE 23 Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term fluctuations in liquidity rather than for investment purposes. Cash and cash equivalents consist of cash, bank deposits and current deposits with a maturity of three months or less. Company policy is to channel excess liquidity in wholly-owned subsidiaries to Borregaard's cash pools (with DNB and Handelsbanken) or placed as deposits with

Borregaard AS. In some countries, however, there are legal or technical impediments on participation in Borregaard's cash pools or making deposits with Borregaard AS.

Amounts in NOK million	2018	2017
TOTAL CASH AND CASH EQUIVALENTS	86	180

NOTE 24 Provisions and other non-current liabilities

Provisions are recognised in the financial statements in the case of onerous contracts or when restructuring measures have been adopted. Future operating losses will not be part of the provisions. In the case of restructuring provisions, there must be a detailed plan that identifies which parts of the business are to be restructured. The location and number of employees affected and a valid expectation must have been created among those concerned that the restructuring will be carried out. In addition, it must be possible to provide a reliable estimate of the amount of the liability. It is a condition that the restructuring materially changes the size of the business or the way in which it is operated. The provision is calculated

on the basis of the best estimate of estimated expenses. If the effect is material, anticipated future cash flows will be discounted using a current pre-tax interest rate that reflects the risks specific to the provision.

Amounts in NOK million	2018	2017
Pension liabilities (Note 10)	79	85
Derivatives (Note 19)	116	61
Other non-current liabilities	2	10
Other provisions (Note 35)	23	41
TOTAL	220	197

NOTE 25 Other liabilities (current)

Current liabilities are operating liabilities (trade accounts payable, unpaid public taxes/charges, prepaid revenues, other accruals, etc.) and financial liabilities (payable interest). All these items are interest-free borrowings. Dividend does not become a liability before it has been approved by the General Meeting.

Amounts in NOK million	2018	2017
Accounts payable (Note 19)	399	456
Derivatives (Note 19)	79	75
Other current liabilities (Note 19)	1	2
Total financial liabilities non interest-bearing	479	533
Value-added tax, employee taxes, etc.	63	61
Accruals	319	306
TOTAL OTHER LIABILITIES	861	900

NOTE 26 Capital management

Borregaard's financial policy shall ensure short-term and long-term financial flexibility for the Group.

Borregaard shall aim at maintaining an "investment grade" credit quality in order to ensure access to debt capital on favourable terms and conditions. Borregaard shall manage financial risks, primarily related to currency fluctuations in a prudent manner and in accordance with established guidelines. Borregaard shall develop and maintain relationships with a core group of banks, based on long-term financing commitments.

LONG-TERM FUNDING

In February 2014, Borregaard made a five-year NOK 400 million issue in the Norwegian bond market. A buy-back of NOK 200 million was made in October 2016. Borregaard issued another five-year NOK 400 million bond in June 2018, increasing the total outstanding bond volume to NOK 800 million as of 31 December 2018. In March 2014, Borregaard entered into a EUR 40 million term loan agreement with

the Nordic Investment Bank with the purpose of refinancing the then recently completed wastewater treatment plant in Sarpsborg and to fund research and development costs associated with innovation projects. The loan has a tenor of ten years with a grace period of three years. Financial covenants are similar to those applicable for the Bank Facilities Agreements described below.

On 30 September 2014, Borregaard refinanced the long-term revolving credit facilities. The total amount of the new Bank Facilities Agreements is NOK 1,500 million, with equal portions of NOK 500 million being provided by each of the three banks (Handelsbanken, DNB and SEB). The tenor of the facilities is 5 years with two one-year extension options at the discretion of the bank. In August 2016, the second extension option was exercised for all Bank Facilities, which therefore now expire on 30 September 2021. All outstanding loans and all other sums due and outstanding must be repaid in full on the termination date specified for each tranche under the Bank Facilities Agreements.

The Bank Facilities Agreements include the following financial covenants:

1. Leverage ratio¹: the ratio of Net Interest-Bearing Debt¹ to EBITDA adj.¹ shall not exceed 3,25:1 during the life of the Agreements.
2. Equity ratio¹: the ratio of Total Consolidated Equity to Total Assets shall not be lower than 25%.
3. Interest coverage ratio: the ratio of Consolidated EBITDA adj.¹ to net Interest Expense shall not be lower than 3.00:1.

The Bank Facilities Agreements also contain restrictions i.a. on the Group companies' ability to grant security or guarantees (negative pledge). Borregaard is in compliance with the covenants as of 31 December 2018, see the table below.

Borregaard's policy for long-term funding is for debt to have an average maturity of at least 2.5 years, with a maturity profile spread over several years. Refinancing risk shall be actively managed and the refinancing process for maturing loans shall preferably commence at least one year ahead of scheduled maturity. Borregaard shall seek to diversify its long-term funding sources, supplementing bank loans with debt capital markets and other sources, subject to availability and conditions. The company may utilise commercial paper markets and/or short-term bank loans as sources of liquidity, provided that such loans can be substituted by undrawn long-term committed loan facilities.

Partially owned companies including the joint venture or companies whose domestic legislation prevents them from entering into loan agreements with Borregaard AS, will need either to be financed on equal (pro rata) terms by the partners or will have to establish independent funding.

In June 2017, LignoTech Florida LLC entered into a USD 60 million loan agreement with SEB. The loan facility is guaranteed 70% by The Norwegian Export Credit Guarantee Agency and has a tenor of 8.5 years from project completion of the plant. The owners of LignoTech Florida (see Note 31) will guarantee the loan facility on a pro rata basis until 12 months after project completion. As of 31 December 2018, USD 54.5 million of the facility was drawn.

As an industrial group, Borregaard is not subject to any external capital requirements.

LIQUIDITY AND CASH MANAGEMENT

At 31 December 2018, Borregaard had a multi-currency overdraft facility of 125 million NOK linked to its international cash pool with DNB, a 100 million NOK overdraft limit linked to its cash pool (Group account system) with Handelsbanken and an intra-day facility of NOK 75 million with Nordea related to salary payments. Borregaard entered 2018 with a commercial paper debt of NOK 200 million. This was at the outset refinanced by new commercial paper issues before being followed by a bond issue in June 2018. Group liquidity shall be managed in cash pools, with Borregaard AS as owner of top accounts and legal counterpart to relevant banks. Group companies shall participate in cash pools to the extent possible, with allocated internal credit lines. Group companies which are prevented from participating in cash pools, shall enter into deposit and/or loan agreements with Borregaard AS and shall aim at keeping locally held cash balances at a near-zero level. Excess liquidity shall primarily be used to repay debt. Alternatively, excess liquidity can be placed with relationship banks or other well-rated banks.

Partially owned companies including the joint venture or companies whose domestic legislation prevents them from entering into deposit and/or loan agreements with Borregaard AS, shall invest surplus cash in low-risk deposits and/or pay dividend. The Group's capital consists of net interest-bearing debt and equity:

Amounts in NOK million	2018	2017
Total interest-bearing liabilities	1,387	1,026
Total interest-bearing receivables	-4	-1
Cash and cash equivalents	-86	-180
NET INTEREST-BEARING DEBT	1,297	845
Group's equity	3,321	2,996
Equity ratio ¹	55.8%	56.2 %
Leverage ratio ¹	1.44	0.80
Interest coverage ratio	19.1	40.7

NOTE 27 Funding and interest-bearing liabilities

Loans and receivables are carried at amortised cost. Thus, changes in fair value resulting from changes in interest rates during the interest rate period are not reported in the income statement. Borrowing costs related to the long-term funding are capitalised over the period of the loan facilities.

FUNDING

Borregaard's main sources of financing are proceeds from its two bond issues totaling NOK 800 million (of which NOK 200 million are held by Borregaard), its EUR 40 million term loan with Nordic Investment Bank (maturing in 2024) and its long-term revolving loan facilities totalling NOK 1,500 million

¹ Alternative Performance Measures, see page 121 for definition.

from three Scandinavian banks. The facilities, granted to Borregaard ASA and Borregaard AS on a joint and several basis, were entered into in September 2014 and mature in 2021. The facilities are unsecured (negative pledge), but the loan agreements contain certain financial covenants (leverage ratio¹, equity ratio¹ and interest cover ratio – see Note 26) and some limitations on new indebtedness beside change of control and cross-default provisions.

In June 2017, LignoTech Florida entered into a USD 60 million loan agreement. As of 31 December 2018, USD 54.5 million of the facility was drawn.

For liquidity and cash management purposes, multi-currency overdraft facilities of NOK 225 million from two banks providing cash management services are in place.

Amounts in NOK million	BOOK VALUE		FAIR VALUE	
	2018	2017	2018	2017
NON-CURRENT INTEREST-BEARING LIABILITIES				
Bank loans/bond	1,115	743	1,115	743
Other interest-bearing liabilities	-	-	-	-
Total non-current interest-bearing liabilities	1,115	743	1,115	743
CURRENT INTEREST-BEARING LIABILITIES				
Bank loans/overdraft/commercial paper	267	252	267	252
Other interest-bearing liabilities	5	31	5	31
Total current interest-bearing liabilities	272	283	272	283
Total interest-bearing liabilities	1,387	1,026	1,387	1,026
INTEREST-BEARING RECEIVABLES				
Non-current interest-bearing receivables	4	1	4	1
Cash and cash equivalents	86	180	86	180
Total interest-bearing receivables	90	181	90	181
NET INTEREST-BEARING LIABILITIES	1,297	845	1,297	845

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 JANUARY 2018	CASH FLOWS	ACQUISITION	FOREIGN EXCHANGE MOVEMENT	FAIR VALUE CHANGES	31 DECEMBER 2018
Long-term borrowings	743	344	-	28	-	1,115
Short-term borrowings	283	-12	-	1	-	272
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	1,026	332	-	29	-	1,387

	1 JANUARY 2017	CASH FLOWS	ACQUISITION	FOREIGN EXCHANGE MOVEMENT	FAIR VALUE CHANGES	31 DECEMBER 2017
Long-term borrowings	525	192	-	26	-	743
Short-term borrowings	61	218	-	4	-	283
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	586	410	-	30	-	1,026

There were no drawings under the Bank Facilities Agreements as of 31 December 2018. Drawings originating from the bond issue, the term loan with Nordic Investment Bank, and the term loan related to LignoTech Florida amounted to

NOK 1,365 million as of 31 December 2018. The maturity profiles of the Group's interest-bearing liabilities are shown in the table below and are based on the current financing. See Note 26.

¹ Alternative Performance Measures, see page 121 for definition.

MATURITY PROFILE INTEREST-BEARING LIABILITIES AND UNUTILISED CREDIT FACILITIES

Amounts in NOK million	GROSS INTEREST-BEARING LIABILITIES		UNUTILISED CREDIT FACILITIES	
	2018	2017	2018	2017
Maturity < 1 year	272	283	225	225
Maturity 1-3 years	213	339	1,500	-
Maturity 3-5 years	645	173	-	1,500
Maturity 5-7 years	166	147	-	-
Maturity > 7 years	91	84	-	-
TOTAL	1,387	1,026	1,725	1,725

NOTE 28 Financial risk

(I) ORGANISATION OF FINANCIAL RISK MANAGEMENT

Borregaard operates internationally and is exposed to financial risks like currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. Borregaard uses derivatives and other financial instruments to reduce these risks in accordance with the Group's finance policy.

Responsibility for managing financial risk in Borregaard is divided between business areas, which manage risk related to business processes, and corporate functions, which manages risk related to centralised activities like funding, interest rate management, cash management, currency risk management and credit management policy. Borregaard's CFO and the Group's Treasury Department are responsible for managing centralised financial risk elements.

FINANCIAL RISKS

This section describes the most important risk factors within the Group and the management of these risks. In this context, financial risk is defined as risk related to financial instruments. These may either be hedging instruments for underlying risk, or viewed as inherently a source of risk.

Borregaard is exposed to currency risk for most of its sales, primarily in USD, but also in EUR. A substantial part of this exposure, defined as estimated net cash flow in USD or EUR, is routinely hedged on a rolling basis with a nine-month time horizon. In order to secure medium-term competitiveness, the hedging horizon may be extended to three years for a EUR/NOK hedging rate in excess of 8.50 and gradually to three years for USD/NOK hedging rates in the 7.50-8.50 range. For USD/NOK exposure, hedging levels may be reduced for hedging rates below 6.00.

On the revenue side, all of Borregaard's business segments are exposed to price risk in international markets. Borregaard is also exposed to price risk on wood, energy (heat energy and electric power) and other strategic raw materials. In 2011, Borregaard entered into a long-term hydroelectric power

contract with Eidsiva Vannkraft AS for delivery of a total of 6.1 billion kilowatt hours (6.1 TWh) to be supplied in the period 2013-2024. In 2018, Borregaard and Eidsiva Vannkraft AS have entered into a new long term supply contract for electric power for a total of 2.8 TWh to be supplied to the Sarpsborg site in the period 2020 to 2029. The new contract replaces the existing contract between the parties for the period 2020 to 2024, with a gradual reduction of annual deliveries from about 420 GWh in 2020 to about 130 GWh in 2029. The agreement between Eidsiva and Borregaard secures power deliveries for Borregaard's plants in Sarpsborg from January 2013 until December 2029. This is energy to be used by Borregaard solely for production purposes. Borregaard also has a hedging strategy which enables hedging of part of its future expected power consumption. The purpose of this hedging is to reduce the risk from volatility in the power prices.

As of 31 December 2018, Borregaard has entered into forward contracts totalling 61 GWh as cash flow hedges for net future power consumption.

(II) CATEGORIES OF FINANCIAL RISKS FOR THE BORREGAARD GROUP**CURRENCY RISK**

As NOK is the presentation currency for the Group, Borregaard is exposed to currency translation risk for net investments in foreign operations. Borregaard hedges this category of risk using currency forward contracts for USD and a mix of forward contracts and loan for EUR.

Transaction risk is hedged against each entity's functional currency. Borregaard applies hedge accounting for most hedges of future transactions, either cash flow hedges or fair value hedges of firm commitments. The different types of hedges are described in Note 29.

The Group's aggregated outstanding currency hedges of future transactions on the balance sheet date are shown in the tables below.

FOREIGN EXCHANGE CONTRACTS LINKED TO HEDGING OF FUTURE REVENUES AND COSTS

2018

Amounts in million

PURCHASE CURRENCY	AMOUNT	SALE CURRENCY	AMOUNT	MATURITY
USD	2	NOK	20	2019
NOK	1,206	USD	144	2019
NOK	929	USD	113	2020
NOK	528	USD	66	2021
EUR	6	USD	7	2019
NOK	907	EUR	94	2019
NOK	896	EUR	91	2020
NOK	595	EUR	59	2021
EUR	5	NOK	47	2019
SEK	58	NOK	54	2019

2017

Amounts in million

PURCHASE CURRENCY	AMOUNT	SALE CURRENCY	AMOUNT	MATURITY
USD	1	NOK	11	2018
USD	1	NOK	9	2019
NOK	1,177	USD	143	2018
NOK	895	USD	107	2019
NOK	534	USD	66	2020
EUR	5	USD	6	2018
NOK	803	EUR	86	2018
NOK	818	EUR	85	2019
NOK	529	EUR	54	2020
EUR	5	NOK	51	2018
SEK	48	NOK	47	2018

INTEREST RATE RISK

Borregaard's interest rate risk is mainly related to the Group's interest-bearing liabilities and assets. This risk is managed at parent level. Borregaard shall primarily follow a floating rate strategy, but may consider fixed rates for a maximum of 50% of its debt, using appropriate derivatives. As of 31 December 2018 Borregaard has the following fixed rate exposure:

2018

Amounts in NOK million

CURRENCY	INTEREST-BEARING DEBT	MATURITY
NOK	200	2023
USD	30	2023

LIQUIDITY RISK

Liquidity risk is the risk that Borregaard is not able to meet its payment obligations. This risk is managed centrally, but in close concert with affected subsidiaries. Borregaard AS initiates measures deemed necessary to maintain a strong

liquidity. Cash flow from operations¹, which among other factors is affected by changes in working capital, is managed operationally at Group level, and is relatively stable. Borregaard monitors liquidity flows, short and long-term, through reporting and selected forecasting routines. Due to the aforementioned measures, the Group has limited liquidity risk.

The table below shows the maturity profile for the Group's contractual financial liabilities, including liabilities which are not recognised in the financial position.

The amounts represent undiscounted future cash flows, and may therefore deviate from recognised figures. The table also includes derivatives recognised as assets on the balance sheet date, as derivatives may include both positive and negative cash flows, and the fair value fluctuates over time. Forward prices are used to determine the future settlement amounts for electric power and currency derivatives.

MATURITY PROFILE FINANCIAL LIABILITIES

2018

Amounts in NOK million	BOOK VALUE	CONTRACTUAL CASH FLOWS	< 1 YEAR	1-3 YEARS	3-5 YEARS	5-7 YEARS	> 7 YEARS
Interest-bearing liabilities	1,387	1,387	272	213	645	166	91
Interest payable	-	188	42	76	48	18	4
Accounts payable	399	399	399	-	-	-	-
Gross settled derivatives*	176	-	-	-	-	-	-
Inflow	-	-6,229	-3,278	-2,951	-	-	-
Outflow	-	6,405	3,339	3,064	2	-	-
TOTAL	1,962	2,150	774	402	695	184	95

¹ Alternative Performance Measures, see page 121 for definition.

2017

Amounts in NOK million	BOOK VALUE	CONTRACTUAL CASH FLOWS	< 1 YEAR	1-3 YEARS	3-5 YEARS	5-7 YEARS	> 7 YEARS
Interest-bearing liabilities	1,026	1,026	283	339	173	147	84
Interest payable**	-	95	23	35	22	11	4
Accounts payable	456	456	456	-	-	-	-
Gross settled derivatives*	30	-	-	-	-	-	-
Inflow	-	-5,829	-3,043	-2,786	-	-	-
Outflow	-	5,859	3,061	2,798	-	-	-
TOTAL	1,512	1,607	780	386	195	158	88

* Including derivatives recognised as assets.

** Figures changed slightly from last year's report to be comparable to the 2018 figures.

The financial liabilities are serviced by cash flow from operations, liquid and interest-bearing assets, and, when necessary, drawings on unutilised credit facilities.

CREDIT RISK

The management of credit risk related to accounts receivable and other operating receivables is handled as part of the business risk, but based on guidelines set by Borregaard AS and continuously monitored by the operating entities. There is no significant concentration of credit risk in respect of single counterparts. A credit management policy is in place. Credit losses are historically modest due to a stable and financially healthy customer base as well as stringent monitoring of trade receivables. See Note 22. For sales to countries or customers associated with high political or commercial risk, trade finance products are widely used to reduce credit risk. With these risk mitigation measures in place, the current credit risk is considered to be acceptable. See Note 8 for geographical breakdown of sales revenues.

Borregaard considers its credit risk related to other financial instruments to be low. Firstly, only core relationship banks act as counterparts for financial hedge transactions. Secondly, bank accounts are mainly held with relationship banks. For deposits of liquidity with other counterparts in countries where relationship banks are not present, Borregaard has requirements relating to the bank's credit rating.

MAXIMUM CREDIT RISK

The maximum credit exposure for the Group related to financial instruments corresponds to total gross receivables. In the hypothetical and highly unlikely event that no receivables are redeemed, this amounts to:

Amounts in NOK million	2018	2017
Cash and cash equivalents	86	180
Accounts receivable	781	761
Other current receivables	43	12
Non-current receivables	225	36
Derivatives	19	106
TOTAL	1,154	1,095

COMMODITY PRICE RISK

The Group is exposed to price risks in respect of a number of raw materials, of which electric power and wood are the most substantial. However, prices of sold products are also affected by raw material prices, and it is generally Borregaard's policy to reduce the price risk through commercial contracts. The Group's aggregated outstanding power hedges are shown in the table below.

HEDGING OF FUTURE EXPECTED POWER CONSUMPTION

2018

Amounts in NOK million

CURRENCY	AMOUNT	MATURITY
NOK	11	2019
NOK	4	2020

SENSITIVITY ANALYSIS

The financial instruments of the Borregaard Group are exposed to different types of market risk which can affect the income statement or equity. Financial instruments, in particular derivatives, are applied as means of hedging both financial and operational exposure.

In the table below, Borregaard presents a partial analysis of the sensitivity of financial instruments, where the isolated effect of each type of risk on the income statement and on equity is estimated. This is done on the basis of a selected reasonably possible change in market prices/rates on the statement of financial position as of 31 December.

According to IFRS, the analysis covers only financial instruments and is not meant to give a complete overview of the Group's market risk, for instance:

- For currency hedges of contracts entered into, changes in fair value of the hedging instrument will affect the income statement, while changes in the fair value of the underlying hedged contract offset by the hedging instrument will not be shown, as it is not a financial instrument.

- If one of the parameters changes, the analysis will not take account of any correlation with other parameters.
- Financial instruments denominated in the entities' functional currencies do not constitute any currency risk and are therefore not included in this analysis. Nor is the currency exposure on translation of such financial instruments to the presentation currency of the Group included, for the same reason.
- No sensitivity analysis is performed for the power hedges as the exposure is considered immaterial.

Generally, the effect on the income statement and equity of financial instruments in the table below is expected to offset the effects of the hedged items where financial instruments are part of a hedging relationship.

SENSITIVITY FINANCIAL INSTRUMENTS

2018

Amounts in NOK million	ACCOUNTING EFFECTS ON			
	INCOME STATEMENT OF		EQUITY OF	
	INCREASE	DECREASE	INCREASE	DECREASE
FINANCIAL INSTRUMENTS IN HEDGING RELATIONSHIPS				
Interest rate risk: 100 bp parallel shift in interest curves all currencies	-13	13	-	-
Currency risk: 10% change in FX-rate USD/NOK	-	-	-214	214
Currency risk: 10% change in FX-rate EUR/NOK	-	-	-190	190
Currency risk: 10% change in FX-rate SEK/NOK	-	-	4	-4

2017

Amounts in NOK million	ACCOUNTING EFFECTS ON			
	INCOME STATEMENT OF		EQUITY OF	
	INCREASE	DECREASE	INCREASE	DECREASE
FINANCIAL INSTRUMENTS IN HEDGING RELATIONSHIPS				
Interest rate risk: 100 bp parallel shift in interest curves all currencies	-8	8	-	-
Currency risk: 10% change in FX-rate USD/NOK	-	-	-195	195
Currency risk: 10% change in FX-rate EUR/NOK	-	-	-170	170
Currency risk: 10% change in FX-rate SEK/NOK	-	-	4	-4

Accounting effects of changes in market risk are classified to income statement and equity according to where the effect of the changes in fair value will be recognised initially. Effects

recognised in the income statement will also affect equity beyond the figures presented in the table.

NOTE 29 Derivatives and hedging

Derivatives are measured at fair value on the balance sheet date and reported as receivables or liabilities. Changes in fair value are reported in the income statement in cases where the derivative is not part of a hedge relationship that satisfies the criteria for hedge accounting. Embedded derivatives in contracts are identified and measured separately. Borregaard currently has no embedded derivatives. Purchases and sales of derivatives are recognised at trade date.

The Group adopted IFRS 9 on the required effective date and did not restate comparative information. During 2018, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. Overall, there were no significant impact on the Group's statement of financial position and equity.

(a) Classification and measurement

No significant impact on the Group's balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Loans, as well as trade receivables, are held to collect contractual cash flows and are expected to give rise to cash flows solely representing payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit

losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applied the simplified approach and record lifetime expected losses on all trade receivables. The Group has considered that due to the historical low level of credit losses, the loss allowance will not be materially different from the current level.

(c) *Hedge accounting*

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

The Group uses the following criteria for classifying a derivative or another financial instrument as a hedging instrument:

- (1) the hedging instrument is expected to be highly effective in offsetting the changes in fair value or the cash flow of an identified object (for 2017 the hedging effectiveness was between 80% and 125%)
- (2) the hedging effectiveness can be measured reliably,
- (3) satisfactory documentation is established before entering into the hedging instrument, showing among other things that the hedging relationship is effective,
- (4) for cash flow hedges, that the future transaction is considered to be highly probable, and
- (5) the hedging relationship is evaluated regularly and is considered to be effective.

The table below shows the fair value of all outstanding derivative financial instruments grouped according to treatment in the financial statements:

DERIVATIVES AND HEDGING

Amounts in NOK million	2018		2017	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
CASH FLOW HEDGES				
Currency forwards, currency swaps	5	190	88	135
Power hedges	13	-	1	-
Interest swaps	-	5	-	-
HEDGES OF NET INVESTMENTS				
Currency forwards, currency swaps	1	-	11	-
OTHER DERIVATIVES - FAIR VALUE CHANGES RECOGNISED IN INCOME STATEMENT				
Currency forwards, currency swaps, options	-	-	6	1
TOTAL DERIVATIVES	19	195	106	136

CALCULATION OF FAIR VALUE

- Currency forwards and currency swaps are measured at fair value using the observed forward exchange rate for contracts with a corresponding term to maturity at the balance sheet date.
- The fair value of currency options is calculated using Garman-Kohlhagen's version of the Black-Scholes Option pricing method, and the variables are based on observed indicative market prices at the balance sheet date.

These derivative financial instruments are designated in hedge relationships as follows:

CASH FLOW HEDGES

The effective part of changes in the fair value of a hedging instrument is recognised in comprehensive income and reclassified to the income statement when the hedged transaction affects profit or loss and is presented on the same line as the hedged transaction. The ineffective part of the

hedging instrument is reported in the income statement. When a hedging instrument is sold, exercised or terminated, the accumulated gains and losses at this point will remain in hedging reserve of equity and will be recognised in the income statement when the hedged transaction affects profit or loss. If the hedged transaction is no longer expected to occur, the accumulated unrealised gain or loss recognised in the hedging reserve of equity will be recognised in the income statement immediately.

In 2018, a loss of NOK 1.1 million (2017: loss of NOK 1.4 million) was recorded in the income statement as a result of hedging inefficiency. All expected cash flows which have been hedged during 2018 still qualify for hedge accounting.

HEDGES OF NET INVESTMENTS IN FOREIGN CURRENCIES

Currency risk on foreign net investments is hedged with currency forward contracts and currency loans. Realised and unrealised effects of the effective part of the hedging

instrument are recognised through comprehensive income. Effects from ineffective parts of the hedging instrument are recognised through profit and loss.

DEVELOPMENT IN THE EQUITY HEDGING RESERVE

Amounts in NOK million	2018	2017
OPENING BALANCE HEDGING RESERVE BEFORE TAX	-163	-289
Reclassified to P/L - operating revenues	33	104
Reclassified to P/L - operating costs	-	-1
Reclassified to P/L - net financial income	2	-
Reclassified to Balance sheet	-2	2
Fair value change cash flow hedges	-164	4
Change in gain/(loss) on hedges of net investments in subsidiaries	-33	17
CLOSING BALANCE HEDGING RESERVE BEFORE TAX	-327	-163
Deferred tax and tax payable hedging reserve	79	43
CLOSING BALANCE HEDGING RESERVE AFTER TAX	-248	-120

A negative hedging reserve means a negative recognition in the income statement in the future. In 2018, the operating profit in Borregaard decreased with NOK 11 million (NOK 72 million) related to hedging activities. Accumulated hedging losses from cash flow hedges recognised in the equity hedging reserve as of 31 December 2018 are expected to be recycled to the income statement as follows (before tax):

2019: NOK -63 million (NOK -33 million)

After 2019: NOK -114 million (NOK -13 million)

FAIR VALUE HEDGES

Gains and losses on derivatives designated as hedging instruments in fair value hedges are reported in the income statement and are offset by changes in the value of the hedged item.

There have not been any significant fair value hedges in the period 2018-2019.

NOTE 30 Equity and share capital

Borregaard ASA was established on 22 August 2012 with a share capital of NOK 1 million. As part of establishing the Borregaard Group, capital transactions to increase share capital and share premium fund was made. Share capital,

share premium fund, other paid-in equity and retained earnings are presented from the establishment of the Borregaard Group in October 2012.

DATE/YEAR	NUMBER OF SHARES	NOMINAL VALUE (NOK)	SHARE CAPITAL (NOK MILLION)
31 December 2018	100,000,000	1	100
31 December 2017	100,000,000	1	100

THE 20 LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2018*

SHAREHOLDER	NUMBER OF SHARES	% OF CAPITAL
1 NN INVESTMENT PARTNERS	9,082,062	9.08%
2 ERIK MUST AS	7,913,755	7.91%
3 NORDEA BANK APB	6,057,929	6.06%
4 ODIN FUND MGT	5,122,334	5.12%
5 TAIGA FUND MGT	3,266,198	3.27%
6 FOLKETRYGDFONDET	3,154,514	3.15%
7 ALFRED BERG	3,110,943	3.11%
8 PARETO GROUP	3,100,214	3.10%
9 THE VANGUARD GROUP, INC	2,641,789	2.64%
10 IMPAX ASSET MGT	2,561,278	2.56%
11 STOREBRAND INVESTMENTS	2,302,513	2.30%
12 ALLIANZ GLOBAL INVESTORS	2,207,116	2.21%
13 BANQUE DEGROOF PETERCAM	1,914,564	1.91%
14 BLACKROCK INC	1,848,476	1.85%
15 JANUS HENDERSON INVESTORS	1,730,765	1.73%
16 SCHRODER INVESTMENT MGT	1,351,170	1.35%
17 SVENSKA HANDELSBANKEN ASSET MGT	1,323,174	1.32%
18 ARCTIC ASSET MGT	1,258,348	1.26%
19 POLARIS CAPITAL MGT	1,248,100	1.25%
20 DIMENSIONAL FUND ADVISORS	1,053,280	1.05%
Total shares	62,248,522	62.25%

* The list of top 20 shareholders is based on information from Orient Capital Ltd in their capacity as shareholder analysis provider. In preparing this report, Orient Capital has used data sourced from third parties. None of the third parties have been involved in the preparation of this report and do not accept any liability for its contents. The information disclosed is factual information only and is not financial product advice. Neither Borregaard, Orient Capital or any third party supplier of data accepts any responsibility for any investment decision or action taken or not taken as a result of this report.

TREASURY SHARES OWNED BY BORREGAARD ASA

	NOMINAL VALUE (NOK)	NUMBER OF SHARES	FAIR VALUE (NOK MILLION)
1 January 2017	343,380	343,380	29
Exercise of share options in 2017	-	-	-
Shares to employees	-159,315	-159,315	-
Purchase/Buy-back of treasury shares	300,000	300,000	-
31 December 2017	484,065	484,065	39
Exercise of share options in 2018	-135,000	-135,000	-
Shares to employees	-309,301	-309,301	-
Purchase/Buy-back of treasury shares	410,451	410,451	-
31 December 2018	450,215	450,215	34

NOTE 31 Non-controlling interests

As of 31 December 2018, non-controlling interests consist of LignoTech Ibérica SA and LignoTech Florida LLC. Borregaard owns 60% of LignoTech Ibérica located in Spain and 55% of LignoTech Florida located in USA. The entities are fully consolidated into the Borregaard Group's financial statements and minority interests are recognised.

The plant was completed mid-2018. As of 31 December 2018, current assets were NOK 81 million in LignoTech Florida and non-current assets amounted to NOK 875 million. Current liabilities were NOK 28 million and non-current liabilities amounted to NOK 473 million. LignoTech Florida had an operating loss of NOK -73 million in 2018.

Spending related to construction of the LignoTech Florida plant started late 2016 and has continued in 2017 and 2018.

Amounts in NOK million	2018	2017
CHANGES IN NON-CONTROLLING INTERESTS:		
Non-controlling interests 1 January	107	34
Non-controlling interests' share of profit/loss	-51	-8
Additions of non-controlling interests	133	84
Translation differences, etc.	9	-3
NON-CONTROLLING INTERESTS 31 DECEMBER	198	107

NOTE 32 Pledges and guarantees

By virtue of the joint venture agreement with Sappi Saiccor, Borregaard AS is liable for export accounts receivable (58 million NOK 31.12.2018) in Umkomaas Lignin (Pty) Ltd (LignoTech South Africa).

In 2017, LignoTech Florida LLC (55% owned by Borregaard) entered into a USD 60 million loan agreement. The owners will

guarantee the loan facility on a pro rata basis until 12 months after what comes first of commercial completion date or from loan consolidation date. As of 31 December 2018 USD 54.5 million was drawn of the facility. See Note 26 and 31.

NOTE 33 Related parties

Activity within the Group is reported in the segment information disclosed in Note 7.

Borregaard has one joint venture, Umkomaas Lignin (proprietary) Limited trading as LignoTech South Africa (50%). This company is jointly owned with Sappi Saiccor. The equity method is used for consolidation according to IFRS 11 for joint arrangements (see also Note 6). The company sells some of its finished goods to Borregaard subsidiaries on an arm's length basis.

Internal trading within the Group is carried out in accordance with special agreements on an arm's length basis, and joint

expenses in Borregaard are distributed among the Group companies in accordance with distribution formulas, depending on the various types of expense. For further information on intercompany transactions, see Note 7 "Segments".

The members of the Group Executive Management of Borregaard hold a total of 920,000* stock options in the Company. Further information regarding the Group Executive Management is disclosed in Note 9.

Other transactions with related parties are part of ordinary business operations.

* Including stock options held by Liv Longva who has acted as a member of the Group Executive Management in 2018 during Tuva Barnholt's absence.

NOTE 34 Government grants

Government grants are recognised in the financial statements when there is a reasonable assurance that they will be received. The grants are presented either as revenue or as a reduction in costs and, in the latter case, matched with the costs for which they are intended to compensate. Government grants that relate to assets are recognised as a reduction in the acquisition cost of the asset. The grant reduces the depreciation of the asset.

Borregaard recognised NOK 136 million in government grants in 2018 (NOK 132 million)⁴. Of this amount, NOK 107

million was recognised as reduced costs (NOK 103 million), while NOK 29 million was recognised as a reduction of the acquisition cost of the asset concerned (NOK 29 million). The grants are provided by Norwegian government and the European Union mainly on research and development projects, environmental investments and CO₂ compensation.

A consortium of European companies and research institutions, with Borregaard as lead member, has been granted financial support for the development and commercialisation of Borregaard's Exilva microfibrillar

⁴ Figures in parentheses are for the corresponding period in the previous year.

cellulose under the Horizon 2020 Flagship programme⁵, the EU Framework Programme for Research and Innovation. The support will cover up to 60% of Borregaard's project costs and make it possible to further increase business development activities in the Exilva project. The maximum amount which can be granted to Borregaard is EUR 25 million over a period of three years from 1 May 2016. The grant is presented as a reduction in operating expenses when it is recognised in

the accounts. The grant will be reduced if the project makes a profit during the three year period. With the current run rate the granted amount will not be fully utilised within the three-year period. The consortium has therefore applied for a 12-months prolongation of the grant period without increasing the total amount. The application was approved by the Commission in December 2018, and the grant period will therefore be prolonged until 30 April 2020.

NOTE 35 Other matters and subsequent events

Environment, Health and Safety issues (EHS): Sulphur dioxide (SO₂) is one of the most important chemicals used in the production processes at Borregaard. There are several EHS regulations to secure safe operations, safe working environment and low emissions to environment. The use of SO₂ has been regulated for many years, but the authorities both in the EU and in Norway have enhanced the regulations during the last years and new demands are coming. Borregaard has decided to introduce new technology that will substantially reduce the amount of SO₂ stored at the plant in Sarpsborg in order to further improve safety. Scrubber technology for reduction of diffuse emissions will be installed during 2019 and 2020.

Chlor-alkali plant: From 1949 to 1997, Borregaard used mercury-based technology for chlor-alkali production at the site in Sarpsborg. This process led to pollution of the soil in the area surrounding the plant. In 1994, a ground water barrier was built and a water monitoring programme was established. In 2015, an increased level of mercury was detected. Borregaard has undertaken measures to improve the ground water barriers in order to prevent mercury leakage from discontinued operations. During 2016, the Norwegian Environment Agency agreed to planned actions and Borregaard made a provision in the financial statements according to estimated costs. The concentration of mercury in ground water wells and in the sewerage systems has decreased due to these actions. Cleaning and deposition of polluted soil areas downstream of the ground water barrier will start up in 2019, and finished in 2020. Borregaard reports progress to the Norwegian Environment Agency quarterly.

A total provision of NOK 60 million was recognised in 2016. Remaining provision as of 31 December 2018 is NOK 40 million. See Note 4.

Opsund landfill: The permanent closure of the Opsund landfill continues according to the plan. Remaining provision as of 31 December 2018 is NOK 6 million. See Note 4.

Shares to employees: As part of the employee share programme, Borregaard has sold a total of 297,756 shares to employees in February 2019. The share price was NOK 57.64 per share including a 25% discount. Costs in 2019, including administration costs, related to the employee share programme amount to approximately NOK 6.5 million. For more details, see notifications to the Oslo Stock Exchange on 4 and 11 February and 1 March 2019.

Share options issued: In February 2019, 400,000 share options at a strike price of NOK 82.35 were granted under the long-term incentive programme. The options will expire after five years, the vesting period is three years and the options may be exercised during the last two years. For more details, see notification to the Oslo Stock Exchange on 6 February 2019.

Treasury shares: From 4 to 13 March 2019, Borregaard has purchased 142,000 shares under a programme aimed at repurchasing a total of 300,000 own shares. The total amount of treasury shares held by Borregaard as of 13 March 2019 is 292,996. See notifications to the Oslo Stock Exchange on 1 March 2019 and onwards.

Issuance of commercial paper: On 21 February 2019, Borregaard ASA issued a commercial paper of NOK 300 million with maturity date 21 May 2019. See notifications to the Oslo Stock Exchange on 18 and 25 February 2019.

There have been no events after the balance sheet date that would have had a material impact on the financial statements or the assessments carried out.

⁵ This project has received funding from the Bio-Based Industries Joint Undertaking (BBI) under the European Union's Horizon 2020 research and innovation programme under grant agreement No 709746.



Borregaard ASA financial statements

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2018

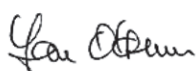
INCOME STATEMENT

Amounts in NOK thousand	NOTE	2018	2017
Other operating expenses	5, 9	-6,960	-6,146
OPERATING PROFIT		-6,960	-6,146
Finance income	6, 9	328,326	518,035
Finance costs	6	-9,763	-4,507
Financial items, net	6, 9	318,563	513,528
PROFIT/LOSS BEFORE TAXES		311,603	507,382
Taxes	8	-71,684	-121,841
PROFIT/LOSS FOR THE YEAR		239,919	385,541
Proposed dividend		-223,987	-199,032

STATEMENT OF FINANCIAL POSITION

Amounts in NOK thousand	NOTE	2018	2017
ASSETS			
Deferred tax assets	8	26	26
Shares in subsidiaries	7	1,158,347	1,158,347
Loans to Group companies	9	1,530,811	935,087
Non interest-bearing receivables		1,101	146
NON-CURRENT ASSETS		2,690,285	2,093,606
Receivables	9	300,413	700,525
Cash, cash equivalents and deposits in Group cash pool	9	31	2,687
CURRENT ASSETS		300,444	703,212
TOTAL ASSETS		2,990,729	2,796,818
EQUITY AND LIABILITIES			
Share capital	11	100,000	100,000
Treasury shares	11	-450	-484
Share premium		1,758,347	1,758,347
Other paid in equity		15,614	15,614
Retained earnings		219,693	201,245
EQUITY		2,093,204	2,074,722
Interest-bearing liabilities	10	400,000	200,000
NON-CURRENT LIABILITIES		400,000	200,000
Interest-bearing liabilities	10	200,000	200,000
Dividends		223,987	199,032
Income tax payable	8	71,684	121,824
Accounts payable	9	956	343
Other liabilities		898	897
CURRENT LIABILITIES		497,525	522,096
EQUITY AND LIABILITIES		2,990,729	2,796,818

Sarpsborg, 13 March 2019
The Board of Directors of Borregaard ASA



JAN ANDERS OKSUM

(Chair)



TERJE ANDERSEN



TOVE ANDERSEN



MARGRETHE HAUGE



HELGE AASEN



ÅSMUND DYBEDAHL



RAGNHILD ANKER EIDE



PER A. SØRLI

(President and CEO)

STATEMENT OF CASH FLOW

Amounts in NOK thousand	2018	2017
Profit/loss before taxes	311,603	507,382
Changes in net working capital, etc.	199,367	84
Taxes paid	-121,824	-126,831
CASH FLOW FROM OPERATING ACTIVITIES	389,146	380,635
CASH FLOW FROM INVESTING ACTIVITIES	-	-
Dividends	-199,051	-348,306
Proceeds from sales of treasury shares	34,124	14,810
Buy-back of treasury shares	-31,555	-28,867
NET PAID TO SHAREHOLDERS	-196,482	-362,363
Change in interest-bearing liabilities	200,000	200,000
Change in interest-bearing receivables	-395,320	-217,938
CHANGE IN NET INTEREST-BEARING LIABILITIES	-195,320	-17,938
CASH FLOW FROM FINANCING ACTIVITIES	-391,802	-380,301
CHANGE IN CASH AND CASH EQUIVALENTS	-2,656	334
Cash and cash equivalents as of 1 January	2,687	2,353
Change in cash and cash equivalents	-2,656	334
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	31	2,687

The cash flow statement has been prepared according to the indirect method and reflects cash flows from operating, investing and financing activities and explains changes in cash and cash equivalents in the reporting period.

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK thousand	SHARE CAPITAL	TREASURY SHARES	SHARE PREMIUM	OTHER PAID-IN EQUITY	RETAINED EARNINGS	TOTAL EQUITY
EQUITY 31 DECEMBER 2016	100,000	-343	1,758,347	8,447	35,327	1,901,778
Profit/loss for the year	-	-	-	-	385,541	385,541
Proposed dividend 2016	-	-	-	-	348,798	348,798
Actual paid-out dividend in 2017	-	-	-	-	-348,306	-348,306
Proposed dividend for 2017	-	-	-	-	-199,032	-199,032
Buy-back/sales of treasury shares	-	-141	-	7,167	-21,083	-14,057
EQUITY 31 DECEMBER 2017	100,000	-484	1,758,347	15,614	201,245	2,074,722
Profit/loss for the year	-	-	-	-	239,919	239,919
Proposed dividend 2017	-	-	-	-	199,032	199,032
Actual paid-out dividend in 2018	-	-	-	-	-199,051	-199,051
Proposed dividend for 2018	-	-	-	-	-223,987	-223,987
Buy-back/sales of treasury shares	-	34	-	-	2,535	2,569
EQUITY 31 DECEMBER 2018	100,000	-450	1,758,347	15,614	219,693	2,093,204

NOTES TO THE FINANCIAL STATEMENTS

NOTE 01 General information

Borregaard ASA ("The Company") was incorporated as a public limited liability company on 22 August 2012.

On 17 September, The Company was inserted as a holding company of Borregaard AS.

NOTE 02 Basis for preparation

The financial statements for Borregaard ASA have been prepared and presented in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP). The annual accounts give a true and fair view of assets and liabilities, financial status and result.

All amounts are in NOK thousand unless otherwise stated. The functional currency of Borregaard ASA is NOK.

CLASSIFICATION OF ITEMS IN THE FINANCIAL STATEMENTS

An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it falls due within 12 months and when it consists of cash or cash equivalents on the statement of financial position date. Other items are non-current.

NOTE 03 Payroll and pensions

Borregaard ASA has no employees and therefore no pension plan. The executive management is employed in Borregaard AS. For matters relating to the remuneration of the executive

management, reference is made to Note 9 in the Consolidated Financial Statements.

NOTE 04 Guarantees

MORTGAGES AND GUARANTEES

Amounts in NOK thousand	2018	2017
Guarantees to subsidiaries	1,500,000	1,500,000
TOTAL GUARANTEE COMMITMENTS	1,500,000	1,500,000

Borregaard ASA is jointly and severally liable as guarantor and as borrower for the long-term credit facilities entered into by Borregaard AS (NOK 1,500 million).

In addition, Borregaard ASA is jointly and severally liable borrower with Borregaard AS for the EUR 40 million term loan contracted with Nordic Investment Bank.

In 2017, LignoTech Florida LLC (55% owned by Borregaard) entered into a USD 60 million loan agreement. The ultimate owners (Borregaard ASA and Rayonier Advanced Materials) will guarantee the loan facility on a pro rata basis until 12 months after project completion.

NOTE 05 Remuneration and contractual arrangements

REMUNERATION OF THE BOARD OF DIRECTORS

In the General Meeting of the Company's shareholders in April 2018 it was determined that The Board of Directors is remunerated at annual rates for the period up to the next General Meeting in 2019:

BOARD OF DIRECTORS			
Board chair	NOK	510,000	per year
Board member, shareholder-elected	NOK	305,000	per year
Board member, employee-elected	NOK	273,400	per year
Observer, employee-elected	NOK	91,000	per year
Deputy for observer	NOK	7,000	per meeting
AUDIT COMMITTEE			
Committee chair	NOK	85,300	per year
Member	NOK	57,100	per year
COMPENSATION COMMITTEE			
Committee chair	NOK	51,100	per year
Member	NOK	39,800	per year

According to a resolution at the General Meeting in 2018 shareholder-elected Board members are required to use 20% of their annual remuneration to acquire shares in the Company, until the share value reaches an amount equivalent to one year's remuneration.

REMUNERATION OF THE NOMINATION COMMITTEE

The Chair of the Nomination Committee receives NOK 56,500 per year and an additional NOK 9,100 per meeting exceeding 4 meetings. Other members receive NOK 39,800 per year and an additional NOK 7,400 per meeting exceeding 4 meetings.

SHAREHOLDINGS OF CEO AND MEMBERS OF THE BOARD OF DIRECTORS

	NUMBER OF SHARES*
PRESIDENT & CEO	
Per A. Sørli	147,439
SHAREHOLDER-ELECTED BOARD MEMBERS	
Jan A. Oksum	11,500
Terje Andersen	4,371
Tove Andersen	4,000
Margrethe Hauge	4,077
Helge Aasen	1,300
EMPLOYEE-ELECTED BOARD MEMBERS	
Ragnhild Anker Eide	3,025
Åsmund Dybedahl	12,913
EMPLOYEE-ELECTED BOARD OBSERVERS	
Bente Seljebakken Klausen	1,966
Roy Kåre Appelgren	1,449
TOTAL	192,040

* Total share ownership including related parties

FEES TO EXTERNAL AUDITOR

Amounts in NOK thousand	2018	2017
Statutory audit	396	402
TOTAL	396	402

NOTE 06 Finance income and finance costs

Amounts in NOK thousand	2018	2017
Group contribution	300,000	500,000
Interest income from Borregaard AS	28,306	18,001
Interest income	20	34
TOTAL FINANCE INCOME	328,326	518,035
Interest costs	-9,762	-4,504
Foreign exchange loss	-1	-3
TOTAL FINANCE COSTS	-9,763	-4,507
FINANCIAL ITEMS, NET	318,563	513,528

NOTE 07 Shares in subsidiaries

Long-term investments in subsidiaries, associated companies and other shares and bonds, which are held to maturity date, are classified as non-current assets in the balance sheet and entered at the lower of cost and market value.

Only directly owned subsidiaries are included in the below table.

Amounts in NOK thousand	BOOK VALUE	GROUP'S SHARE OF CAPITAL
Borregaard AS Sarpsborg, Norway	1,158,347	100%
TOTAL	1,158,347	

The Group also has indirect ownership in the following subsidiaries and joint venture, of which the profit/loss and equity are important in the valuation of the above company.

GROUP'S SHARE OF CAPITAL

INDIRECTLY OWNED SUBSIDIARIES	
Borregaard, Inc.	100%
Nutrancell AS	100%
Borregaard Austria GmbH	100%
Borregaard Czech s.r.o.	100%
Borregaard UK Ltd.	100%
Borregaard Deutschland GmbH	100%
Borregaard S.E.A. Pte. Ltd	100%
Borregaard Poland sp. z.o.o.	100%
Borregaard France SarL	100%
Borregaard Ibérica, S.L.	100%
LignoTech Ibérica SA	60%
Borregaard Middle East FZE	100%
Borregaard Synthesis Inc.	100%
LignoTech USA, Inc.	100%
Borregaard North America, Inc.	100%
LignoTech Brasil Produtos de Lignina EIRELI	100%
Borregaard South Asia Pvt. Ltd	100%
Borregaard Shanghai Company Limited	100%
SenseFi Inc.	100%
LignoTech Florida LLC	55%
INDIRECTLY OWNED JOINT VENTURES	
Umkomaas Lignin (Pte) Ltd	50%

NOTE 08 Taxes

Deferred tax shows the company's tax liability assuming its assets and debt are realised at book value by year-end. Positive temporary differences state that book value is higher than taxable value, and vice versa for negative differences. The item Tax income/(cost) in the profit and loss statement, consists of two elements: The tax payable, and the change in deferred tax. Deferred tax/tax benefit is reflected as long-term debt/non-current assets in the balance sheet.

TAX EXPENSE			
Amounts in NOK thousand	2018	2017	
Profit before tax	311,603	507,382	
Current tax expense	-71,684	-121,824	
Change in deferred tax	-	-17	
TOTAL TAX EXPENSE	-71,684	-121,841	
Tax as % of Profit/loss before taxes	23%	24%	

DEFERRED TAX LIABILITIES

Deferred tax liability consists of the tax liabilities that are payable in the future. The table below lists deferred tax assets and liabilities relating to the timing differences between tax accounting and financial accounting.

Amounts in NOK thousand	2018	2017
DEFERRED TAX ON TAX INCREASING/REDUCING DIFFERENCES		
Provisions	-26	-26
DEFERRED TAX LIABILITIES/ASSETS	-26	-26
This year's change in deferred tax	-	-17
CHANGE IN DEFERRED TAX INCOME STATEMENT	-	-17

Deferred tax assets are only capitalised to the extent that it is probable that there will be sufficient future taxable profit for the tax asset to be used, either because the unit recently reported a profit or because assets with excess value have been identified. If future profits are not likely to be sufficient to absorb the tax reducing timing differences, deferred tax assets are not recognised.

NOTE 08 cont.

RECONCILIATION OF TOTAL TAX EXPENSE

Amounts in NOK thousand	2018	2017
23% (24%) of profit before taxes	-71,669	-121,772
Change in tax rate	-1	-2
Other non-deductible expenses	-14	-67
TOTAL TAX EXPENSE	-71,684	-121,841

The tax rate in Norway was reduced from 23% to 22% from 1 January 2019. This is considered in the calculation of deferred taxes as of 31 December 2018.

NOTE 09 Related parties

INTERCOMPANY RELATIONS WITH BORREGAARD AS

Amounts in NOK thousand	2018	2017
Other operating expenses (Note 5)	3,353	3,101
Group contribution	300,000	500,000
Interest income from Group companies (Note 6)	28,306	18,001
Loans to Group companies*	1,530,811	935,087
Current receivable Group contribution	300,000	500,000
Short-term loans to Group companies*	-	200,404
Accounts payable	932	336

Borregaard ASA is part of Borregaard's cash pool with Handelsbanken.

* The loan is interest-bearing and the interest is calculated in accordance with market conditions.

NOTE 10 Interest-bearing liabilities

UNSECURED BOND LOAN 2014-2019

On 14 February 2014, Borregaard issued NOK 400 million as a 1st tranche of an open bond issue with a borrowing limit of NOK 600 million. The bond issue has a 5 year tenor, and is priced at 3 months NIBOR plus 95 basis points. Settlement of the transaction took place on 26 February 2014. Maturity is 26 February 2019.

On 31 October 2016, a buy-back of NOK 200 million was made on Borregaard's bond. Post settlement, the Company holds NOK 200 million nominal of the total NOK 400 million nominal outstanding amount.

UNSECURED BOND LOAN 2018-2023

On 7 June 2018, Borregaard issued NOK 400 million in a new open bond issue with a tenor of 5 years and a coupon of 3 months NIBOR plus 77 basis points. Settlement of the transaction took place on 20 June 2018. Maturity is 20 June 2023.

NOTE 11 Other matters

SHARE CAPITAL AND SHAREHOLDERS

Information about the share capital and a list of the largest shareholders in Borregaard ASA is presented in Note 30 in the Consolidated Financial Statements for the Borregaard Group. Information of treasury shares is presented in the same Note.

For other matters and subsequent events, see Note 35 in the Consolidated Financial Statements for the Borregaard Group.

STATEMENT FROM THE BOARD OF DIRECTORS

We confirm that the financial statements for the period 1 January up to and including 31 December 2018, to the best of our knowledge, have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial positions and profit or loss of

the Company and the Group as a whole. The Board of Directors' report includes a fair review of the development and performance of the business and the position of the Company and the Group as a whole, together with a description of the principal risks and uncertainties that they face.

Sarpsborg, 13 March 2019

THE BOARD OF DIRECTORS OF BORREGAARD ASA


JAN ANDERS OKSUM
Chair


TERJE ANDERSEN



TOVE ANDERSEN


MARGRETHE HAUGE


HELGE AASEN


ÅSMUND DYBEDAHL


RAGNHILD ANKER EIDE


PER A. SØRLIE
President and CEO

AUDITOR'S REPORT



Statsautoriserte revisorer
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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Borregaard ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Borregaard ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the statement of financial position as at 31 December 2018, the income statement, statement of cash flows and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the statement of financial position as at 31 December 2018, the income statement, statements of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- ▶ the financial statements are prepared in accordance with the law and regulations;
- ▶ the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate



opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Environmental provisions

The Group operates in an industry with inherent risk of environmental contamination, and has several operating sites in multiple jurisdictions. Environmental provisions are recognized when contamination and environment clean up obligations are identified. Estimates of future cash flows to clean up affected areas are based on management's expectations of the related cost. The expected cost is uncertain as it is dependent on management expectation and on requirements from authorities that may change over time. Further, the application of accounting standards to recognize or release provisions requires judgement. Since environmental provisions are material and subject to estimation uncertainty, we consider recognition and measurement of environmental provisions to be a key audit matter.

We read correspondence with the Group's external advisors on the current situation and risks regarding environmental provisions and correspondence with environmental authorities to assess the recognition criteria and suggested measures. We assessed the estimated cash flows used as basis for the environmental provisions by comparing to the most recent actual cash flows for similar clean-ups, and by comparing updated estimates with the prior years' actual expenses. Further, we assessed key input factors to the calculations by comparing to data from correspondence with authorities. In addition, we inspected the Group's litigation and compliance reports and held discussions with the Group's internal counsel. We also held discussions with management and internal representatives responsible for environmental provisions.

We refer to note 4 use of estimates, note 24 provisions and other non-current liabilities, note 25 other liabilities (current) and note 35 other matters and subsequent events.

Revenue recognition and cut-off

The Group has customers worldwide and revenue is recognized when the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. A good or service is considered to be transferred when the customer obtains control. To determine the point in time when the customer obtains control of a promised asset and the entity satisfies the performance obligation may be complex due to a large number of shipments and various trade terms. Consequently, there is a risk that significant transactions near yearend are recognized in the incorrect period. We therefore consider revenue recognition and cut-off of revenue to be a key audit matter.

We obtained an understanding of the process for revenue recognition and cut-off. Further, we considered the Group's assessment and the impact of the new revenue recognition standard, IFRS 15 Revenue from contract with customers. We evaluated the Group's considerations for transfer of goods and services to customers and tested controls performed by the Group related to determine the point in time for when the performance obligation is satisfied. For transactions recorded close to yearend we compared trade terms and status of shipments to underlying contractual information and other supporting documentation to assess correct cut off. We analyzed the level of accruals for invoiced unrecognized revenue compared to previous periods and as a percentage of sales.

We refer to note 2 for revenue recognition principles and note 8 geographical breakdown.

Hedging of cash flows related to sales

The Group is exposed to currency risk as a significant part of sales are invoiced in foreign currencies. A portion of future forecasted cash flows from sales are hedged using currency forward contracts. Borregaard applies hedge accounting for cash flow hedges. The use of hedge accounting requires effective hedging relationships and supporting documentation. Accounting for cash flow hedging related to sales is material to Borregaard and we consider this a key audit matter.



We assessed the Group's requirements for use of hedge accounting. We tested, on a sample basis, whether the documentation of cash flow hedging meets the requirements of IFRS as adopted by EU and that the hedging instruments therefor are eligible for hedge accounting. We examined the assessments of cash flows forecasts from sales and the relationship between hedging instruments and hedging objects. Furthermore, we considered the retrospective effectiveness testing to assess that the ineffective part of the hedge has been calculated accurately. We reconciled the outcome of the retrospective effectiveness testing resulting in the hedge adjustment to the financial statements. We obtained external confirmations for unrealized forward contracts at yearend and assessed the changes in fair value of forward contracts and changes in foreign exchange for hedging objects. Further, we assessed the impact for profit and loss, comprehensive income and the balance sheet.

We refer to note 28 financial risk and note 29 derivatives and hedging.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:



- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.



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Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 14 March 2019

ERNST & YOUNG AS

A handwritten signature in blue ink, appearing to read 'Kjetil Rimstad', is written over the printed name.

Kjetil Rimstad
State Authorised Public Accountant (Norway)

HISTORICAL KEY FIGURES

	DEFINITIONS	2018	2017	2016	2015	2014
PROFIT & LOSS						
Operating revenues	(mill.NOK)	4,785	4,618	4,492	4,164	3,939
EBITA adj. ¹	(mill.NOK)	580	749	747	497	486
Amortisation intangible assets	(mill.NOK)	-4	-4	-4	-1	-
Other income and expenses ¹	(mill.NOK)	-	-9	13	37	-30
Operating profit	(mill.NOK)	576	736	756	533	456
EBITA adj. margin ¹	(%)	12.1	16.2	16.6	11.9	12.3
Ordinary profit before taxes	(mill.NOK)	562	715	724	506	430
Profit/loss for the year	(mill.NOK)	425	558	553	384	332
CASH FLOW						
Cash flow from operating activities	(mill.NOK)	558	780	1,081	563	600
RETURN						
Return on capital employed ¹	(%)	12.7%	19.1%	21.7%	15.6%	16.5%
CAPITAL AS OF 31 DECEMBER						
Booked value of total assets	(mill.NOK)	5,951	5,333	4,671	4,169	3,748
Market capitalisation	1 (mill.NOK)	7,532	8,108	8,469	4,901	5,429
Equity ratio ¹	(%)	55.8	56.2	58.1	49.4	52.0
Net interest-bearing debt ¹	(mill.NOK)	1,297	845	300	624	608
Leverage ratio ¹		1.44	0.80	0.29	0.82	0.83
Interest coverage ratio	2	19.1	40.7	41.2	24.0	16.4
Share of floating interest-bearing liabilities	3 (%)	100	100	100	100	100
SHARES AS OF 31 DECEMBER						
Number of shares outstanding diluted	(x 1,000)	99,901	99,957	100,077	99,735	99,578
Number of shares outstanding	(x 1,000)	100,000	100,000	100,000	100,000	100,000
SHARE-RELATED KEY FIGURES						
Share price at 31 December	(NOK)	74.80	81.50	84.50	49.40	55.50
Earnings per share diluted	4 (NOK)	4.76	5.66	5.55	3.87	3.35
Ordinary dividend per share (proposed for 2018)	(NOK)	2.25	2.00	1.75	1.50	1.25
Extraordinary dividend	(NOK)	-	-	1.75	-	-
Payout ratio	5 (%)	47.27	35.34	63.06	38.76	37.31
Price/earnings ratio	6	15.71	14.40	15.23	12.76	16.57
PERSONELL						
Number of man-years at 31 December (excluding JV) ²		1,097	1,065	1,008	1,027	1,028

DEFINITION:

- 1 Market capitalisation is calculated on the basis of number of shares outstanding x average share price at year end
- 2 (Profit before tax + Net interest expenses)/(Net interest expenses)
- 3 Liabilities with remaining period of fixed interest of less than one year
- 4 Profit for the year after minority interests/Average number of shares outstanding diluted at year end
- 5 Total dividend per share/Earnings per share diluted
- 6 Share price/Earnings per share diluted

¹ Alternative Performance Measures, see page 121 for definition.

² Excluding employees in the joint venture LignoTech South Africa.

ALTERNATIVE PERFORMANCE MEASURES

In the discussion of the reported operating results, financial position and cash flows, Borregaard refers to certain measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. Borregaard management makes regular use of these Alternative Performance Measures and is of the opinion that this information, along with comparable GAAP measures, is useful to investors who wish to evaluate the company's operating performance, ability to repay debt and capability to pursue new business opportunities. Such Alternative Performance Measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

CASH FLOW FROM OPERATIONS

Cash flow from operations is defined by Borregaard as:

	Cash flow from operating activities (IFRS)
+	Taxes paid
+/-	Net financial items
+/-	Dividend (share of profit) from JV
=	Cash flow from operations

EBITA ADJUSTED (EBITA ADJ.)

EBITA adj. is defined by Borregaard as operating profit before amortisation and other income and expenses.

EBITA ADJ. MARGIN

EBITA adj. margin is defined by Borregaard as EBITA adj. divided by operating revenues.

EBITDA ADJUSTED (EBITDA ADJ.)

EBITDA adj. is defined by Borregaard as operating profit before depreciation, amortisation and other income and expenses.

EQUITY RATIO

Equity ratio is defined by Borregaard as equity (including non-controlling interests) divided by equity and liabilities.

EXPANSION INVESTMENTS

Expansion investments is defined by Borregaard as investments made in order to expand production capacity, produce new products or to improve the performance of existing products. Such investments include business acquisitions, pilot plants, capitalised research and development costs and new distribution set-ups.

OTHER INCOME AND EXPENSES

Other income and expenses is defined by Borregaard as non-recurring items or items related to other periods or to a discontinued business or activity. These items are not viewed as reliable indicators of future earnings based on the business areas' normal operations. These items will be included in the Group's operating profit.

LEVERAGE RATIO

Leverage ratio is defined by Borregaard as net interest-bearing debt (see Note 10) divided by last twelve months' (LTM) EBITDA adj.

NET INTEREST-BEARING DEBT

Net interest-bearing debt is defined by Borregaard as interest-bearing liabilities minus interest-bearing assets, see Note 27.

CAPITAL EMPLOYED

Capital employed is defined by Borregaard as the total of net working capital, intangible assets, property, plant and equipment and investment in joint ventures minus net pension liabilities and deferred tax excess value.

RETURN ON CAPITAL EMPLOYED (ROCE)

Return on capital employed (ROCE) is defined by Borregaard as last twelve months' (LTM) EBITA adj. divided by average capital employed based on the ending balance of the last five quarters.



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